HARRISBURG AREA COMMUNITY COLLEGE
Harrisburg, Pennsylvania

FINANCIAL STATEMENTS
June 30, 2012 and 2011

TABLE OF CONTENTS

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of Harrisburg Area Community College (the College) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress-OPEB information as listed in the table of contents be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The other supplemental information as listed in the table of contents as of and for the year ended June 30, 2012, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the College financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the component unit financial statements taken as a whole.

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
October 23, 2012

Introduction

Management's Discussion and Analysis (MD&A) of Harrisburg Area Community College's (HACC) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2012, with selected comparative information for the years ended June 30, 2011 and 2010. The purpose of the MD&A is to assist readers with understanding the accompanying financial statements by providing objective and understandable analysis of HACC's financial activities based on current known facts, decisions, and conditions. HACC management has prepared this analysis and is responsible for the completeness and fairness of the information contained within. This MD&A should be read in conjunction with the financial statements and notes.

The College has prepared its financial statements in accordance with Government Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that the financial statements be presented to focus on the College as a whole. Three financial statements are presented: the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. This MD&A includes comments on each statement and focuses on the activities of the College (Primary Institution) only.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." Pursuant to the criteria set forth in GASB 39, it was determined that the HACC Foundation is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other college projects. The Foundation's financial statements for June 30, 2012 and 2011 are displayed in the financial statements section of the report and are not included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. John M. Eberly, Interim Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

Financial Highlights

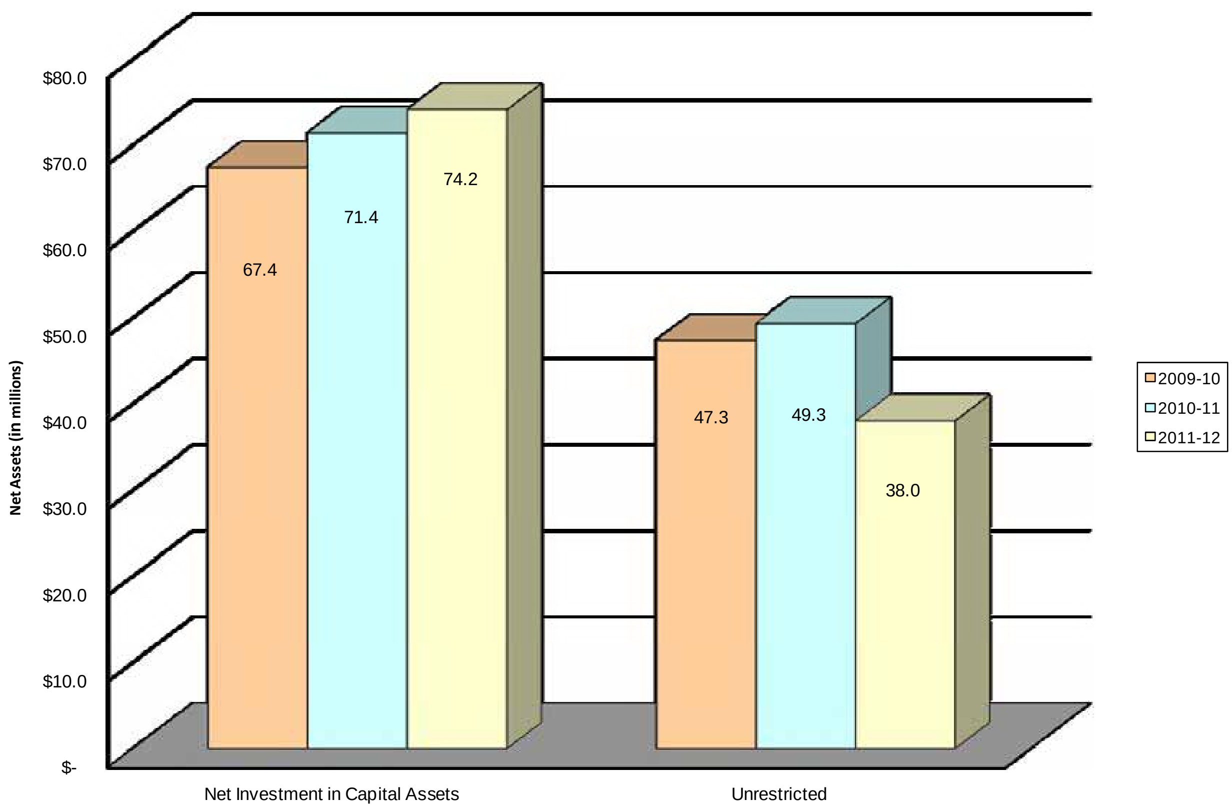
HACC's financial position continues to remain strong as of June 30, 2012. At June 30, 2012, HACC's assets of $271.7 million exceeded its liabilities of $159.5 million by $112.2 million, a decrease over the prior year of $8.6 million. At June 30, 2011, assets of $230.6 million exceeded liabilities of $109.9 million by $120.7 million, an increase over the prior year of $6.0 million.

Net Assets, which represent the difference between total assets and total liabilities, are divided into two major categories. The first category, invested in capital assets, net of related debt, shows the College's equity in property, plant, and equipment that it owns. The second category, unrestricted net assets, is available to use for any lawful purpose of the College. The College has no restricted net assets at either June 30, 2012 or 2011.The following table and graph summarizes the College's statement of net assets by category for the fiscal years ended June 30, 2012, 2011, and 2010.

Net Assets
As of June 30
(In millions)

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Invested in capital assets, net of related debt	$74.2	$71.4	$2.8	$67.4	$4.0
Unrestricted	38.0	49.3	($11.3)	47.3	$2.0
Total Net Assets	$112.2	$120.7	($8.5)	$114.7	$6.0

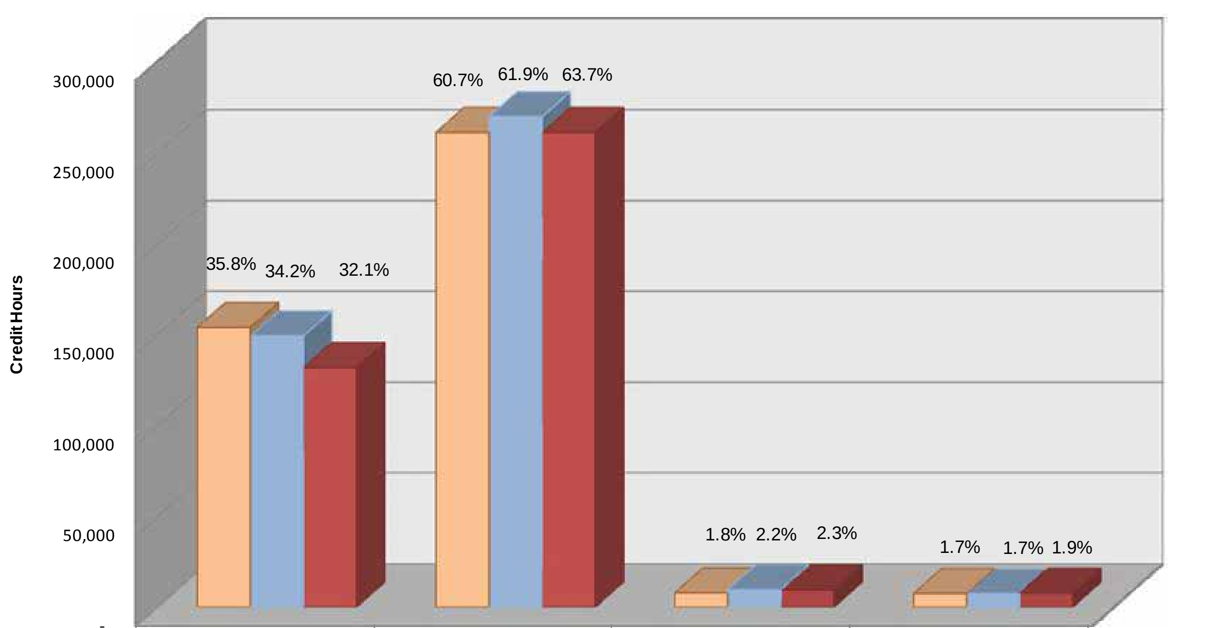
Comparison of Net Assets Fiscal Years 2010, 2011, 2012



Credit Hour Production

After the enrollment growth of 1.3% (5,421 credit hours) in 2011, the College experienced a decrease in enrollments of 5.9% (25,625 credit hours) in 2012 due to the continuing effects of the economy. Total credit hours have gone from 431,086 in 2010 to 436,507 for 2011 and to 410,882 for 2012. In 2012, the College realized the percentage of non-sponsored student credit hours increased to 63.7% of total enrollments up from 61.9% in 2011 and 60.7% in 2010 as compared to a decrease in the percentage of sponsoring student credit hours to 32.1% of total enrollments in 2012, down from 34.2% in 2011, and 35.8% in 2010. Each non-sponsored student paid tuition of $189 per credit hour in 2012, while a sponsored student paid $136.50 per credit hour and received local sponsoring school district support of $56.35 per credit hour.

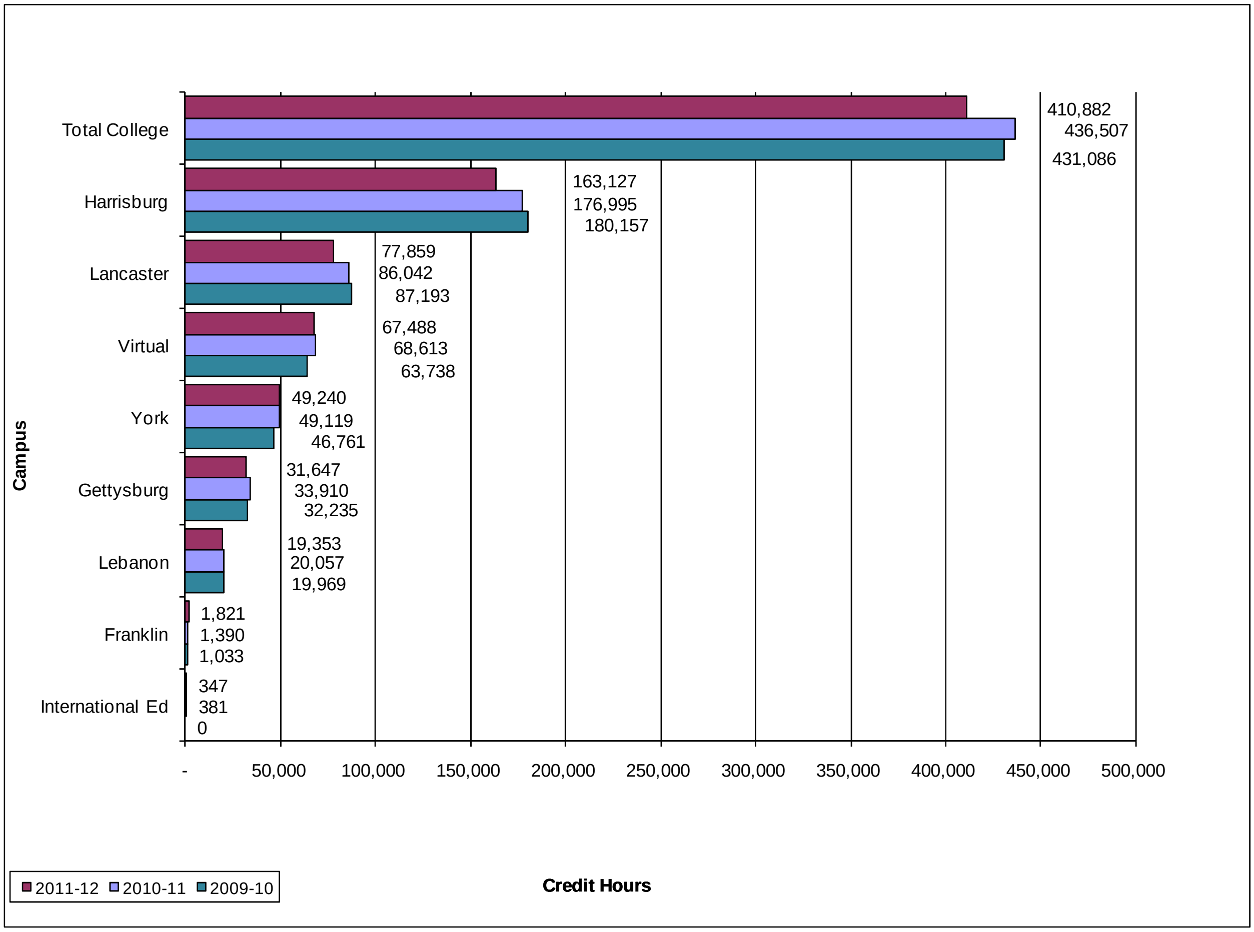
Credit Hour Production by Student Type



	Sponsored	Nonsponsored	Out of State	College in HS
2009-10	154,071	261,683	7,846	7,486
2010-11	149,230	270,221	9,670	7,386
2011-12	131,959	261,644	9,563	7,716

Student Type

Credit Hour Production by Campus 2010, 2011, 2012



Statements of Net Assets

The statements of net assets present the assets, liabilities, and net assets of the College as of the end of the June 30, 2012 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution. It presents the end-of-the-year data for current and noncurrent assets, current and noncurrent liabilities, and net assets (assets minus liabilities). Over periods of time, increases and decreases in net assets may serve as a useful gauge of the College's financial position. As the following chart illustrates, the College is in a strong financial position with net assets slightly decreasing over the past year due to early retirement and reduction in workforce benefit payments and a modest decrease in student enrollment credit hours.

Statement of Net Assets
(In millions)

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Assets					
Current Assets	$66.6	$92.5	($25.9)	$98.0	($5.5)
Noncurrent Assets	205.1	138.1	67.0	130.9	7.2
Total Assets	271.7	230.6	41.1	228.9	1.7
Liabilities					
Current Liabilities	34.2	25.7	8.5	25.3	0.4
Noncurrent Liabilities	125.3	84.1	41.2	88.8	(4.7)
Total Liabilities	159.5	109.8	49.7	114.1	(4.3)
Net Assets					
Invested in Capital Assets, net of debt	74.2	71.4	2.8	67.4	4.0
Unrestricted	38.0	49.3	(11.3)	47.3	2.0
Total Net Assets	$112.2	$120.7	($8.5)	$114.7	$6.0

In 2012, current assets decreased by $25.9 million over 2011. During the year, cash and cash equivalents decreased by $19.4 million. The decrease is a result of $14.1 million in net cash and cash equivalents invested in short-term ($5.9 million) and long-term ($8.2 million) instruments to obtain better interest rates and $5.3 million to fund the early retirement and reduction in workforce benefit payments. In addition, restricted cash and cash equivalents decreased by $11.8 million as the College drew down bond proceeds. In 2012, the College had small increases in accounts receivable and decreases in other assets, as well as a small increase in bookstore inventory.

The noncurrent assets increased by $67.0 million in 2012 from the previous year. The increase is largely due to capital assets associated with the purchase of the Lancaster Campus and expansion/renovation at the York and Harrisburg Campuses. In addition, $8.2 million of cash and cash equivalents were invested in long term instruments to obtain better interest rates.

Current liabilities for 2012 increased $8.5 million due to increases of $4.6 million in accrued expenses and a $1.1 million in unearned revenue representing an increase in paid tuition and fees toward Summer II and Fall 2012 semesters. Also, the current portion of long-term liabilities increased by $2.6 million with added debt for the 2011 bond issue. Noncurrent liabilities for 2012 reflect an increase of $41.0 million in bonds payable as debt added during 2012 to purchase the Lancaster Campus.

Statements of Net Assets (Continued)

Net assets decreased to $112.1 million as of June 30, 2012. The largest portion of these net assets, $74.2 million, reflects the College's investment in capital assets, less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and staff and is not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net assets balance of $38.0 million is available to use for any lawful purpose of the College.

Statements of Revenues, Expenses, and Changes in Net Assets

The statements of revenues, expenses, and changes in net assets show the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

Operating revenues are those received by the College for directly providing goods and services. Non-operating revenues are those that exclude a direct exchange of goods and services. State and local (school district) appropriations are classified as non-operating revenues since these governmental agencies do not directly receive goods or services for the revenue.

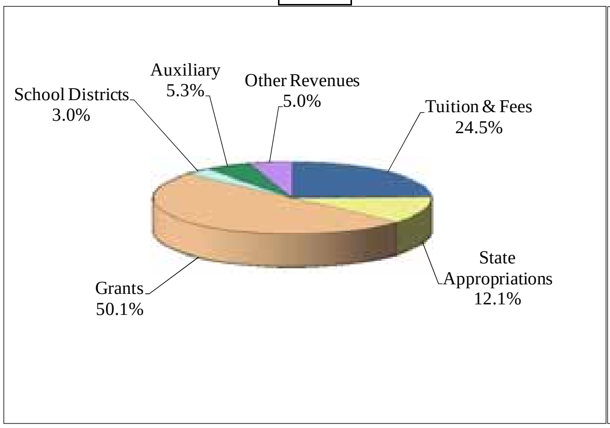
The following is a summarized version of the College's revenues, expenses, and changes in net assets for years ending June 30, 2012, 2011, and 2010, as well as graphical representations of revenues and expenses by category.

Revenues, Expenses and Changes in Net Assets
(In millions)

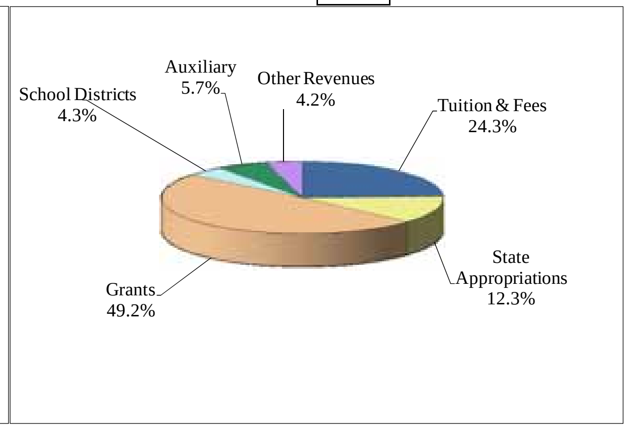
	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011 - 2010
Operating Revenues	$228.0	$220.9	$7.1	$206.3	$14.6
Operating Expenses	284.9	267.5	17.4	252.7	14.8
Operating Income (Loss)	(56.9)	(46.6)	(10.3)	(46.4)	(0.2)
Nonoperating Revenues (Net)	39.4	43.9	(4.5)	44.3	(0.4)
Net Income (Loss) Before Capital Contributions	(17.5)	(2.7)	(14.8)	(2.1)	(0.6)
Capital Contributions	8.9	8.7	0.2	8.6	0.1
Increase (Decrease) in Net Assets	($8.6)	$6.0	($14.6)	$6.5	($0.5)

Total Operating and Non-Operating Revenues

2012



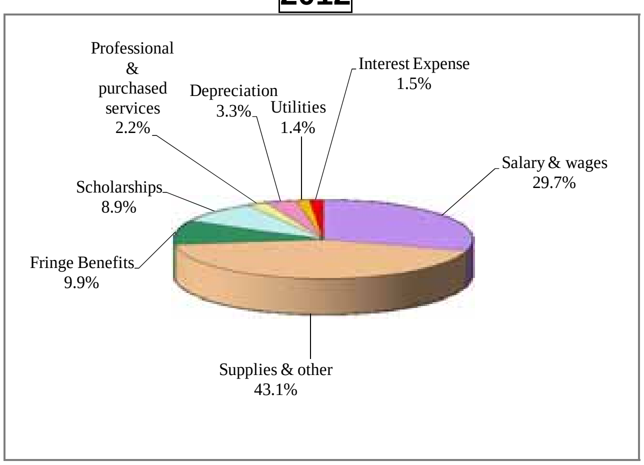
2011



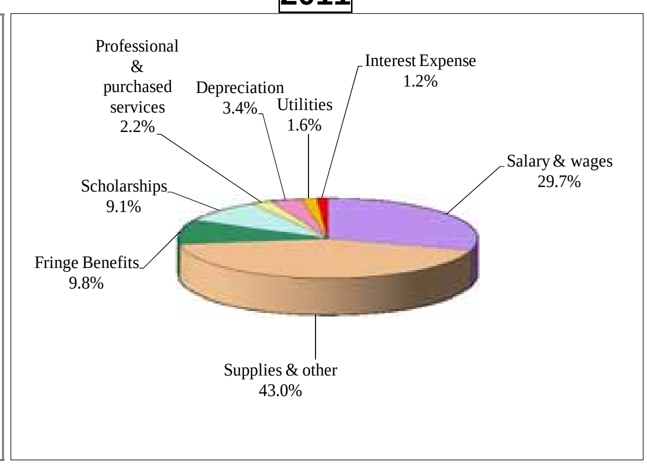
Operating revenues of $228.0 million in 2012 were $7.1 million greater than 2011. Total operating revenues in 2011 were $220.9 million, which was an increase of $14.6 million over 2010. In 2012, tuition and fees increased $2.4 million driven by increased tuition per credit hour (sponsored students $136.50 in 2012 versus $106.50 in 2011, non-sponsored students $189.00 in 2012 versus $183.00 in 2011, and out-of-state students $283.50 in 2012 versus $274.50 in 2011). Also, the College experienced an overall increase of $3.5 million in grants and scholarships mainly in the Federal Direct Loan Program. This was due to an increased number of participants borrowing loans. Other operating revenues increased by $1.2 million which includes income from institutional fees.

Total Operating Expenditures by Natural Source

2012

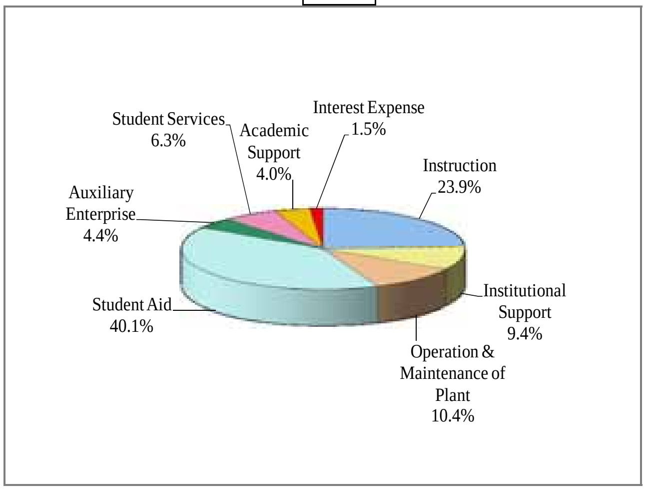


2011

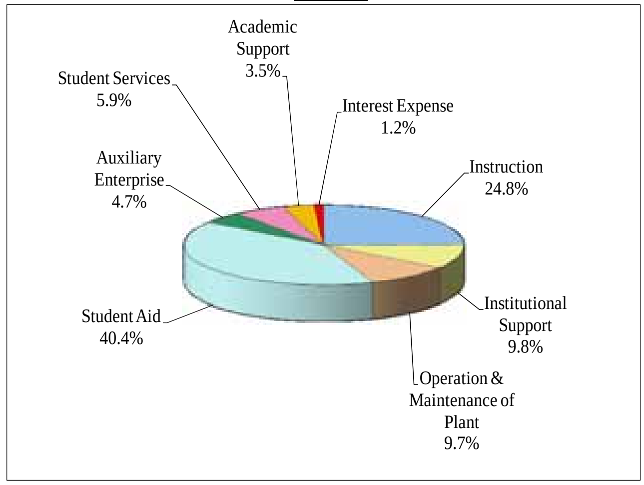


Total Operating Expenditures by Function

2012



2011



Operating expenses increased by $17.4 million in 2012. With the exception of utilities, the College experienced an increase in all expense categories in 2012 compared to 2011. The $273 thousand decrease in utilities reflects energy efficiency improvements. Increased expenses include salary and fringe benefits up by $7.7 million from salary increases, including early retiree and reduction in workforce benefit payments, and rising costs for medical insurance. Other increased expenses include: Supplies and other expenses increased by $2.9 million which is mainly due to increases in purchases of instructional equipment not capitalized, the Federal Direct Loan Program increased $5.2 million, depreciation and amortization increased $466 thousand, and Scholarships were up $1.2 million.

Non-operating revenues (expenses) decreased by $4.5 million which includes a decrease of $3.5 million in state and local appropriations, an increase in $1.2 million in interest expense, and a net increase of $265 thousand in other non-operating revenue. The increase of $1.2 million in interest expense is capital asset related debt, which includes interest payments on 2010 and 2011 bonds issued to build the Public Safety Center and purchase the Lancaster Campus.

The total capital contributions for fiscal year 2012 amounted to $8.9 million. This was an increase of $245 thousand compared to 2011 which includes a decrease of $167 thousand in state and local appropriations and an increase of $412 thousand in grants and gifts.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall decrease of $8.6 million due to increases in operating expenses and decreases in non-operating revenues (expense).

Statements of Cash Flows

The final statement presented by the College is the statement of cash flows. The statement of cash flows presents information about the cash activity of the College identifying the major sources and uses of cash during the year. The following summary shows the College's liquidity as of June 30, 2012 had decreased $31.2 million compared to the prior year which includes a transfer of $17.4 million to short-term and long-term investments to obtain better interest rates and the remaining amount to fund the Colleges increase in operating expenses and reduction in non-operating revenues (expense), mainly state and local appropriations. The following is a summary of the statement of cash flows for the years ending June 30, 2012, 2011, and 2010.

Cash Flows
(In millions)

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Cash Provided (Used) By:					
Operating Activities	($44.0)	($35.1)	($8.9)	($37.8)	$2.7
Noncapital Financing Activities	42.5	45.6	($3.1)	46.8	(1.2)
Capital Financing Activities	(16.3)	(17.3)	$1.0	5.5	(22.8)
Investing Activities	(13.4)	6.3	(19.7)	7.5	(1.2)
Net Increase (decrease) in Cash and Cash Equivalents	(31.2)	(0.5)	(30.7)	22.0	(22.5)
Cash and Cash Equivalents - Beginning of Year	67.4	67.9	($0.5)	45.9	22.0
Cash and Cash Equivalents - End of Year	$36.2	$67.4	($31.2)	$67.9	($0.5)

Capital Plan

For 2012, the College has a variety of capital projects that have been planned or are currently being planned based upon funding availability. The plan includes multiple projects on the Harrisburg Campus including renovating the C. Ted Lick Wildwood Conference Center to facilitate Central Administration, replace the transformers in the Hall Tech Building, and roof replacement at Rose Lehrman Arts Center.

At the Lancaster Campus, there are plans to retro-commission buildings and to replace the roof of the staff entrance.

The College plans to renovate and expand the parking lot at the Gettysburg Campus and replace windows at the Lebanon Campus.

Finally, the College is planning to purchase the York Campus Leader Building under a lease/purchase agreement.

Capital Asset and Debt Administration

During the year ended June 30, 2012, the College had total capital additions of approximately $59.8 million. The capital additions included the purchase of the Lancaster Campus and numerous renovation projects at other campuses. Renovation projects included the installation of the Internal Emergency Mass Notification System, replacement of the HVAC systems at the Evans Gym and Pollock Childcare Center, and replacement of the chiller at Blocker Hall on the Harrisburg Campus. Other renovations completed during the current year include the Lebanon Campus student administration areas, the Lancaster bookstore, replacement of a chiller on the Lancaster Campus, and general renovations at the York Goodling and Leader buildings.

The College has several outstanding debt instruments which were issued to finance various construction projects and other improvements. These debts, including payment schedules are fully disclosed in greater detail within Notes 7 and 8 of the financial statements.

Economic Factors That Will Affect the Future

The College's financial position is closely tied to the economy and State's budget. Changes in the economy, unemployment rates in Central Pennsylvania, high school graduating yield rates, the College's challenges and opportunities to expand into new markets, and retention efforts have all affected student enrollments.

State and local funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. However, the College continues to focus on student retention and foster growth through the pursuit of alternative sources of revenue, including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals, and state agencies to meet our ongoing mission to provide low cost education to all who seek it. The College continues to be innovative by offering new programs to our students.

The College has undergone significant cultural and economic changes to remain fiscally sustainable by realigning the operating costs with the estimated revenues by freezing salary increases until January 2013 and offering early retirement and reduced work (and pay) schedules to qualified employees. The realignment included elimination of numerous vacant positions and a modest increase in student fees.

Overall, the College's current financial position remains strong as is evident by the 2012 financial statements. The current College structure is aligned to streamline operations, create efficiencies, and eliminate redundancies to advance fiscal stability and provide a high quality, low cost education where students come first.

FINANCIAL STATEMENTS

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	Primary Institution		Component Unit Foundation	
	2012	**2011**	**2012**	**2011**
		ASSETS		
CURRENT ASSETS				
Cash and cash equivalents	$ 31,987,515	$ 51,422,007	$ 1,260,072	$ 916,846
Restricted cash and cash equivalents	4,202,914	16,039,490	-	-
Short-term investments	14,272,482	8,219,755	-	-
Accounts receivable, net	11,020,074	10,603,611	26,409	30,630
Contributions receivable, net	-	-	2,997,627	3,678,170
Loans receivable - current	22,431	26,400	-	-
Other assets	2,345,352	3,873,783	2,118	4,333
Inventories	2,458,959	2,198,148	-	-
Due from Foundation	320,487	148,897	-	-
Total current assets	66,630,214	92,532,091	4,286,226	4,629,979
NONCURRENT ASSETS				
Investments	8,189,238	-	27,837,424	27,443,777
Loans receivable - long-term portion	10,152	15,981	-	-
Capital assets, net	196,881,781	138,064,097	-	-
Total noncurrent assets	205,081,171	138,080,078	27,837,424	27,443,777
Total assets	$ 271,711,385	$ 230,612,169	$ 32,123,650	$ 32,073,756
		LIABILITIES		
CURRENT LIABILITIES				
Due to College	$ -	$ -	$ 320,487	$ 148,897
Accounts payable and accrued expenses	19,862,356	15,336,191	-	-
Deposits held in custody for others	1,246,895	1,104,847	-	-
Unearned revenue	4,434,297	3,327,999	34,000	61,500
Current portion of long-term liabilities	8,633,951	5,986,300	-	-
Total current liabilities	34,177,499	25,755,337	354,487	210,397
NONCURRENT LIABILITIES				
Long-term liabilities	124,596,845	83,577,028	-	-
Other postemployment benefit obligations	763,638	527,480	-	-
Total noncurrent liabilities	125,360,483	84,104,508	-	-
Total liabilities	159,537,982	109,859,845	354,487	210,397
NET ASSETS				
Invested in capital assets, net of related debt	74,131,902	71,465,019	-	-
Permanently restricted	-	-	15,836,673	15,879,100
Temporarily restricted	-	-	14,222,661	13,857,587
Unrestricted	38,041,501	49,287,305	1,709,829	2,126,672
Total net assets	112,173,403	120,752,324	31,769,163	31,863,359
TOTAL LIABILITIES AND NET ASSETS	$ 271,711,385	$ 230,612,169	$ 32,123,650	$ 32,073,756

The accompanying notes are an integral part of the financial statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	Primary Institution		Component Unit Foundation	
	2012	2011	2012	2011
REVENUES				
Operating revenues				
Student tuition and fees	$ 82,671,106	$ 80,295,404	$ -	$ -
Scholarship allowance and discounts	(16,260,834)	(15,247,451)	-	-
Net tuition and fees	66,410,272	65,047,953	-	-
Federal grants	37,224,289	40,750,762	-	-
Federal direct loan program	89,753,813	84,591,261		
State and local grants	9,093,679	6,183,274	-	-
Nongovernmental grants	228,681	286,239	-	-
Sales and services of auxiliary enterprises	14,450,698	15,215,737	-	-
Other operating revenues	10,789,422	8,797,233	-	-
Contributions	-	-	2,381,302	3,823,025
Contributions in kind			427,447	132,703
Investment income, net of investment expenses of $108,325 in 2012 and $116,213 in 2011	-	-	638,321	543,842
Realized and unrealized gains (losses) on investments	-	-	(600,507)	4,216,183
Total operating revenues	227,950,854	220,872,459	2,846,563	8,715,753
EXPENSES				
Operating expenses				
Salaries and wages	85,880,566	80,418,206	291,311	312,808
Fringe benefits and payroll taxes	28,709,635	26,473,246	111,891	143,134
Supplies and other expenses	34,742,366	31,878,140	117,609	209,050
Professional and purchased services	6,274,923	6,025,542	220,414	199,737
Utilities	4,165,248	4,438,761		-
Depreciation and amortization	9,597,052	9,130,736		-
Federal direct loan program	89,753,813	84,591,261		
Scholarships	25,738,609	24,489,079	823,054	899,091
Contributions and grants	-	-	1,376,480	777,012
Total operating expenses	284,862,212	267,444,971	2,940,759	2,540,832
Operating income (loss)	(56,911,358)	(46,572,512)	(94,196)	6,174,921
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	32,783,585	32,894,939	-	-
Local appropriations	8,002,674	11,488,603	-	-
Gifts	2,136,037	1,615,118	-	-
Gain(loss) on disposal of assets	(14,039)	137	-	-
Investment income, net of investment expenses of $12,360 in 2012 and $12,041 in 2011	751,386	992,891	-	-
Interest expense	(4,279,203)	(3,128,689)	-	-
Total non-operating revenues, net	39,380,440	43,862,999	-	-
Net income (loss) before capital contributions	(17,530,918)	(2,709,513)	(94,196)	6,174,921
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	800,000	600,000	-	-
Capital appropriations - state sources	6,791,882	7,158,637	-	-
Capital grants and gifts	1,360,115	948,165	-	-
Total capital contributions	8,951,997	8,706,802	-	-
Increase (decrease) in net assets	(8,578,921)	5,997,289	(94,196)	6,174,921
Net assets - beginning of year	120,752,324	114,755,035	31,863,359	25,688,438
NET ASSETS - END OF YEAR	$ 112,173,403	$ 120,752,324	$ 31,769,163	$ 31,863,359

The accompanying notes are an integral part of the financial statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees	$ 65,620,640	$ 65,683,249
Receipts from grants and contracts	47,692,259	47,818,013
Receipts from federal direct loan program	89,753,813	84,591,261
Receipts from auxiliary enterprise charges	14,452,424	15,197,285
Receipts from other revenues	10,838,875	8,991,340
Payments to and on behalf of employees	(114,104,633)	(104,694,552)
Payments to suppliers for good and services	(42,726,895)	(43,651,815)
Payments for federal direct loan program	(89,753,813)	(84,591,261)
Payments for financial aid and scholarships	(25,757,685)	(24,404,680)
Net cash used in operating activities	(43,985,015)	(35,061,160)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	32,549,392	32,844,791
Local appropriations	7,836,783	11,127,547
Gifts received	2,095,200	1,589,018
Net cash provided by noncapital financing activities	42,481,375	45,561,356
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceed of capital debt financing	51,229,327	-
Bond issuance costs	(137,645)	-
State and local capital appropriations	7,591,882	7,758,637
Capital grants and gifts received	1,360,115	948,163
Purchases of capital assets	(64,862,298)	(16,404,191)
Proceeds from sale of capital assets	-	137
Principal paid on debt and capital leases	(6,957,645)	(6,421,912)
Interest paid on debt and capital leases	(4,031,133)	(3,142,186)
Deposit on capital asset	(500,013)	-
Net cash used in capital financing activities	(16,307,410)	(17,261,352)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(17,436,779)	-
Proceeds from sale/maturities of investments	3,194,813	5,163,652
Investment income	781,948	1,088,101
Net cash provided by (used in) investing activities	(13,460,018)	6,251,753
Decrease in cash and cash equivalents	(31,271,068)	(509,403)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	67,461,497	67,970,900
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 36,190,429	$ 67,461,497
Cash and cash equivalents per statements of net assets	$ 31,987,515	$ 51,422,007
Restricted cash and cash equivalents per statements of net assets	4,202,914	16,039,490
TOTAL CASH	$ 36,190,429	$ 67,461,497

The accompanying notes are an integral part of the financial statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (56,911,358)	$ (46,572,512)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	9,597,052	9,130,736
Gain(loss) on disposal of capital assets	14,039	(137)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(284,497)	(21,602)
Inventory	(260,811)	32,825
Other assets	743,814	(119,638)
Accounts payable and accrued expenses	3,016,862	361,369
Unearned revenue	1,134,492	1,051,911
Compensated absences	(656,404)	867,907
Other postemployment benefits	(236,158)	190,375
Deposits	(142,046)	17,606
Net cash used in operating activities	$ (43,985,015)	$ (35,061,160)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS		
Capital gifts of equipment and buildings	$ 13,785	$ 123,557
Net unrealized gains on investments	$ 6,562	$ -

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Harrisburg Area Community College (the "College") is a public comprehensive, two year, co-educational institution, which commenced operations in 1964 under the provisions of the Community College Act of 1963. Campuses are located in Gettysburg, Harrisburg, Lancaster, Lebanon, and York, Pennsylvania. The College is accredited by the Middle States Association of College and Secondary Schools.

Measurement Focus and Basis of Accounting

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities (an Amendment of GASB Statement No. 34).* The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures are reported when materials or services are received. All intercompany accounts and transactions have been eliminated.

Reporting Entity

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* which amends Statement No. 14, *The Financial Reporting Entity*, provides guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The Harrisburg Area Community College Foundation (the "HACC Foundation") and the Wildwood Conference Center Foundation are included in the College's financial statements as component units due to the oversight responsibility of the College in accordance with GASB standards. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. The Foundation was organized for the purpose of receiving gifts and grants and to distribute the available funds to, or for the benefit of the College. In accordance with the provisions of GASB Statement 39, the HACC Foundation is shown as a discretely presented component unit.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

Substantially all of HACC Foundation's expenses for scholarships, contributions, and grants flow through as "gift" income on the College's financial statements. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as a blended component unit and included with the activity of the college. Separate financial statements are available for the HACC Foundation by contacting the College's Office of Finance and College Resources, One HACC Drive, Harrisburg, Pennsylvania 17110-2999.

Financial Statement Presentation

The College has adopted GASB Statements No. 34 and 35 (as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*), and No. 38, *Certain Financial Statement Note Disclosures.* These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. GASB Statement No. 35 requires equity to be reported as "net assets" rather than "fund balance." Net assets are classified into three categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

- *Invested in capital assets, net of related debt* - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of invested in capital assets, net of related debt.

- *Restricted net assets* – This represents net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time. The College did not have any restricted net assets as of June 30, 2012 or 2011.

- *Unrestricted net assets* - Unrestricted net assets represent resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of Statement No. 35 have been applied to the years presented.

The HACC Foundation follows SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the HACC Foundation is considered a non-profit organization and follows FASB pronouncements, not GASB pronouncements. Therefore, it is not subject to the same disclosure requirements as the College.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

These include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, the College's short-term pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF). For purposes of the statement of net assets, the College considers all highly liquid investments with original maturities of three months or less at time of purchase to be cash equivalents.

Restricted Cash

Restricted cash consists of unspent bond proceeds which are designated to be used for the specific projects that were funded by the bonds.

Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Total Return Policy - HACC Foundation

The Foundation has adopted a total return policy for its permanently restricted endowment funds and a separate trust was created to maintain the investments for these funds. Based on the policy and the revocable trust agreement, income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7% and was approved to be 4% for the years ended June 30, 2012 and 2011. Actual investment return, net of the 4% spending policy, is added back to the permanently restricted corpus. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of fund principal as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method (FIFO).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Buildings and improvements are stated at cost less accumulated depreciation. All equipment is stated at estimated historical cost (based on an appraisal done July 1, 1999), and/or actual costs for subsequent purchases less accumulated depreciation. The College provides for depreciation on the straight-line method over the estimated useful lives of the related assets as shown below. All assets with an individual purchased cost or fair value if acquired by gift, in excess of $ 2,000 with an estimated useful life in excess of one year are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Depreciable lives are as follows:

Asset Type	Useful Life in Years
Buildings	45
Land improvements	20
Equipment	5-20
Furniture	20

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, bond loss on refinancing, and issuance costs are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Income Taxes

The College is considered an instrumentality of the Commonwealth of Pennsylvania and is tax-exempt. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The HACC Foundation and Wildwood Conference Center Foundation are exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

Compensated Absences

Liability for compensated absences is accounted for in accordance with generally accepted accounting principles, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to a maximum of twenty vacation leave days per year and are entitled to compensation for accumulated, unpaid vacation leave upon termination up to a maximum of forty days. Full-time employees also earn up to 12 sick leave days per year and are entitled to compensation for accumulated unpaid sick leave upon retirement. The maximum payout is for 45 sick days.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement. The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net assets.

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, state, local, and nongovernmental grants and contracts; and (4) sales and service of educational activities.

- *Nonoperating Revenues* - Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the College receives value without directly giving equal value in return), such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state and local appropriations and investment income.

Accounts Receivable

Accounts receivable relate to transactions involving student tuition and fee billings for semesters in which services are provided, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions.

Allowance for Doubtful Accounts

It is the College's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectability experienced by the College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

Use of Restricted Net Assets

The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted funds first when practicable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported in the statement of revenues, expenses and changes in net assets. Scholarship allowances are reported separately on the Statement of Revenues, Expenses and Changes in Net Assets, and the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, the Federal Direct Loan Program (FDLP), and the Federal Family Educational Loan (FFEL) Program is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as either operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Pension Plans

Employees of the College are provided pension benefits through one of three available cost-sharing, multiple-employer retirement plans. The College follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50*, Pension Disclosures*. GASB Statement No. 27 and No. 50 establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 11 for additional information.

Other Post Employment Benefits

The College provides employees annual other postemployment benefits (OPEB). The cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. See Note 12 for additional information.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. The reclassifications did not affect total net assets or changes in net assets.

NOTE 2 – CASH AND CASH EQUIVALENTS AND DEPOSITS

Reconciliation of cash, cash equivalents and short-term investments as shown on the Statement of Net Assets:

	2012	2011
Cash on hand	$ 11,950	$ 11,250
Carrying amount of deposits	36,193,717	67,450,247
Carrying amount of certificates of deposits (CD's)	14,257,244	8,219,755
Total cash and short-term investments	$ 50,462,911	$ 75,681,252
Cash and cash equivalents	$ 31,987,515	$ 51,422,007
Restricted cash and cash equivalents	4,202,914	16,039,490
Short-term investments	14,272,482	8,219,755
Total cash and short-term investments per statement of net assets	$ 50,462,911	$ 75,681,252

Included in short-term investments on the statement of net assets are CD's invested at various financial institutions in the amount of $14,272,482 at June 30, 2012 and $8,219,755 at June 30, 2011, all with maturities of one to twenty-four months. These CD's are considered deposits for purposes of this disclosure.

The College also has petty cash of $11,950 included in the cash and cash equivalents amount on the Statement of Net Assets.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a written policy for custodial credit risk. At June 30, 2012, the carrying amount of the College's deposits was $50,450,961 and the bank balance was $47,267,350. As of June 30, 2012 and June 30, 2011, $45,988,370 and $61,667,824, respectively, of the College's bank balance was exposed to custodial credit risk as follows:

	2012	2011
Uninsured and uncollateralized	$ -	$ 5,409
Uninsured and collateral held by the pledging bank's trust department but not in the College's name	45,988,370	61,662,415
Total	$ 45,988,370	$ 61,667,824

NOTE 3 – INVESTMENTS

Credit Risk

Included on the statement of net assets, as cash and cash equivalents, are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $3,001,350 and $1,000,799 at June 30, 2012 and June 30, 2011, respectively. This fund consists of short term money market instruments and seeks to maintain a constant net asset value of $1 per share. At June 30, 2012 and June 30, 2011, the College's investment in PSDLAF was rated AAA by Standard & Poor's Investors Service.

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. Investments in PSDLAF are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Market Risk

The College's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment assets reported in the financial statements.

Investments of the College as of June 30, 2012 are comprised of the following:

	2012		
	Cost	**Fair Value**	**Unrealized Gains (Losses)**
Government obligations	$ 8,182,676	$ 8,189,238	$ 6,562
Total	$ 8,182,676	$ 8,189,238	$ 6,562

The table below exhibits credit quality distribution for investments with credit exposure as a percentage of total investments (total investments include short-term investments which are not represented in this table) as of June 30, 2012 as follows:

Investment Type	Rating	Percentage
Government Obligations		
FNMA	AA	9.0%
FFCB	AA	3.8%
FHLMC	AA	20.0%
FHLB	AA	3.6%

The College's Government obligations are rated by Standard & Poors.

NOTE 3 – INVESTMENTS (CONTINUED)

Market Risk (Continued)

Investments of the HACC Foundation as of June 30, 2012 and 2011 are comprised of the following:

	2012		
	Cost	**Fair Value**	**Unrealized Gains (Losses)**
Money market funds	$ 1,146,952	$ 1,146,952	$ -
Mutual Funds, by type:			
Growth	1,596,531	1,746,723	150,192
Index	4,029,033	4,268,904	239,871
Value	1,709,952	1,738,165	28,213
International	2,295,342	2,111,593	(183,749)
Fixed income	8,131,655	8,198,679	67,024
Other	576,670	598,505	21,835
Total mutual funds	18,339,183	18,662,569	323,386
Equities, by industry sector:			
Consumer discretionary	612,931	775,328	162,397
Consumer staples	763,740	1,009,855	246,115
Energy	858,976	862,951	3,975
Financial	1,239,268	1,269,085	29,817
Health care	840,649	999,590	158,941
Industrials	430,586	493,917	63,331
Information technology	986,257	1,340,387	354,130
Materials	285,946	281,789	(4,157)
Telecommunications	188,791	186,281	(2,510)
Utilities	131,560	150,156	18,596
International	105,809	112,640	6,831
Total equities	6,444,513	7,481,979	1,037,466
Government obligations	10,175	10,052	(123)
Corporate bonds	521,324	535,872	14,548
Total	$ 26,462,147	$ 27,837,424	$ 1,375,277

NOTE 3 – INVESTMENTS (CONTINUED)

Market Risk (Continued)

	2011		
	Cost	**Fair Value**	**Unrealized Gains (Losses)**
Money market funds	$ 1,287,786	$ 1,287,786	$ -
Mutual Funds, by type:			
Growth	1,864,822	2,166,425	301,603
Index	3,487,695	3,892,467	404,772
Value	836,482	918,108	81,626
International	2,857,912	3,004,111	146,199
Fixed income	6,649,160	6,553,591	(95,569)
Total mutual funds	15,696,071	16,534,702	838,631
Equities, by industry sector:			
Consumer discretionary	657,238	875,556	218,318
Consumer staples	856,835	1,038,011	181,176
Energy	983,726	1,168,120	184,394
Financial	1,171,074	1,262,390	91,316
Health care	898,441	1,073,822	175,381
Industrials	487,670	614,766	127,096
Information technology	1,036,225	1,443,513	407,288
Materials	249,944	323,992	74,048
Telecommunications	218,275	248,434	30,159
Utilities	132,505	145,058	12,553
International	94,083	103,287	9,204
Total equities	6,786,016	8,296,949	1,510,933
Government obligations	40,613	41,342	729
Corporate bonds	1,255,461	1,282,998	27,537
Total	$ 25,065,947	$ 27,443,777	$ 2,377,830

NOTE 4 – ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts and contributions receivable consisted of the following at June 30:

	College		HACC Foundation	
	2012	2011	2012	2011
Student tuition and fees	$ 6,990,115	$ 6,256,366	$ -	$ -
Allowance for doubtful accounts	(1,110,000)	(1,110,000)	-	-
Grants and contracts receivable	3,404,400	3,356,738	-	-
Bookstore receivables	1,007,764	892,147	-	-
Other receivables	727,795	1,208,360	26,409	30,630
Pledges receivables (net)	-	-	2,997,627	3,604,425
Charitable remainder annuity trust held by outside party	-	-	-	73,745
Total	$11,020,074	$10,603,611	$ 3,024,036	$ 3,708,800

Bookstore receivables include $962,997 and $852,851 in vendor credit memos at June 30, 2012 and 2011, respectively.

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 1.00% at June 30, 2012 and 2.00% at June 30, 2011. The unamortized discount was $156,439 and $342,161 at June 30, 2012 and 2011, respectively. The Foundation records the allowance for uncollectible promises receivable based on historical collection experience and management's analysis of specific promises made. The allowance for uncollectible promises receivable is $43,603 for both June 30, 2012 and June 30, 2011, respectively. The discounted pledges and related allowance for uncollectible contributions, estimated by management, are scheduled to be collected as follows:

Unconditional promises are expected to be collected in:

	2012	2011
Less than one year	$ 262,502	$ 725,590
One year to five years	1,639,984	1,973,498
Over five years	1,138,744	1,022,685
	3,041,230	3,721,773
Less allowance for uncollectible contributions	(43,603)	(43,603)
Total	$ 2,997,627	$ 3,678,170

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital asset transactions of the College for the years ended June 30, 2012 and 2011:

	2012			
	Beginning Balance	Additions	Transfers and Retirements	Ending Balance
ASSETS NOT BEING DEPRECIATED				
Land	$ 4,608,961	$ 5,152,977	$ -	$ 9,761,938
Construction in process	4,538,409	13,688,141	(4,538,409)	13,688,141
Total assets not being depreciated	9,147,370	18,841,118	(4,538,409)	23,450,079
ASSETS BEING DEPRECIATED				
Building	86,198,797	43,889,047	-	130,087,844
Improvements				
Land	2,494,479	1,264,757	-	3,759,236
Building	53,121,795	4,409,460	-	57,531,255
Leaseholds	15,882,335	1,544,981	-	17,427,316
Instructional equipment	32,995,666	827,511	(31,431)	33,791,746
Non-instructional equipment	21,307,039	2,117,387	(38,498)	23,385,928
Total assets being depreciated	212,000,111	54,053,143	(69,929)	265,983,325
Less accumulated depreciation				
Building	(29,399,392)	(2,543,989)	-	(31,943,381)
Improvements				
Land	(720,599)	(152,547)	-	(873,146)
Building	(14,012,446)	(2,247,845)	-	(16,260,291)
Leaseholds	(3,891,554)	(795,944)	-	(4,687,498)
Instructional equipment	(18,244,763)	(1,756,411)	29,795	(19,971,379)
Non-instructional equipment	(16,814,630)	(2,027,393)	26,095	(18,815,928)
Total accumulated depreciation	(83,083,384)	(9,524,129)	55,890	(92,551,623)
Total assets being depreciated	128,916,727	44,529,014	(14,039)	173,431,702
TOTAL CAPITAL ASSETS	$138,064,097	$ 63,370,132	$ (4,552,448)	$196,881,781

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	2011			
	Beginning Balance	Transfers and Additions	Retirements	Ending Balance
ASSETS NOT BEING DEPRECIATED				
Land	$ 4,536,201	$ 72,760	$ -	$ 4,608,961
Construction in process	1,900,701	4,094,557	(1,456,849)	4,538,409
Total assets not being depreciated	6,436,902	4,167,317	(1,456,849)	9,147,370
ASSETS BEING DEPRECIATED				
Building	84,631,058	1,567,739	-	86,198,797
Improvements				
Land	2,313,938	180,541	-	2,494,479
Building	47,013,448	6,108,347	-	53,121,795
Leaseholds	15,505,622	376,713	-	15,882,335
Instructional equipment	31,915,382	1,083,526	(3,242)	32,995,666
Non-instructional equipment	17,091,106	4,231,185	(15,252)	21,307,039
Total assets being depreciated	198,470,554	13,548,051	(18,494)	212,000,111
Less accumulated depreciation				
Building	(27,355,710)	(2,043,682)	-	(29,399,392)
Improvements				
Land	(601,032)	(119,567)	-	(720,599)
Building	(11,593,451)	(2,418,995)	-	(14,012,446)
Leaseholds	(3,104,843)	(786,711)	-	(3,891,554)
Instructional equipment	(16,344,226)	(1,902,506)	1,969	(18,244,763)
Non-instructional equipment	(15,046,284)	(1,780,941)	12,595	(16,814,630)
Total accumulated depreciation	(74,045,546)	(9,052,402)	14,564	(83,083,384)
Total assets being depreciated	124,425,008	4,495,649	(3,930)	128,916,727
TOTAL CAPITAL ASSETS	$130,861,910	$ 8,662,966	$ (1,460,779)	$138,064,097

Capitalized interest was $29,197 and $492,125 for the years ended June 30, 2012 and 2011, respectively.

Depreciation expense was $9,524,129 and $9,052,402 for the years ended June 30, 2012 and 2011, respectively.

NOTE 6 – OTHER ASSETS

Other assets of the College at June 30 consisted of:

	2012	2011
Prepaid expenses	$ 1,123,839	$ 2,713,719
Bond issue costs	1,678,938	1,538,793
Accumulated amortization – bond issue costs	(457,425)	(378,729)
Total	$ 2,345,352	$ 3,873,783

Amortization expense was $72,923 and $78,337 for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 – LONG-TERM LIABILITIES

	2012					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Capital leases payable	$ 46,047	$ -	$ (41,854)	$ 4,193	$ 4,193	$ -
General obligation bonds						
Series of 2004	12,470,000	-	(1,745,000)	10,725,000	1,795,000	8,930,000
Series of 2005	2,390,000	-	(570,000)	1,820,000	585,000	1,235,000
Series of 2008	24,015,000	-	(1,200,000)	22,815,000	1,255,000	21,560,000
Series of 2009	17,385,000	-	(585,000)	16,800,000	805,000	15,995,000
Series of 2009A	11,380,000	-	(1,265,000)	10,115,000	1,285,000	8,830,000
Series of 2010	15,280,000	-	(5,000)	15,275,000	5,000	15,270,000
Series of 2011	-	51,010,000	(1,220,000)	49,790,000	1,650,000	48,140,000
Revolving loan	464,721	-	(325,792)	138,929	138,929	-
Bond premium	34,985	219,327	(8,459)	245,853	13,130	232,723
Bond discount	(512,561)	-	30,971	(481,590)	(30,971)	(450,619)
Loss on refinancing	(314,624)	-	20,032	(294,592)	(20,031)	(274,561)
Total leases and bonds/ notes payable	82,638,568	51,229,327	(6,915,102)	126,952,793	7,485,250	119,467,543
Other liabilities						
Compensated absences						
Vacation leave	3,692,130	274,439	(829,839)	3,136,730	342,198	2,794,532
Sick leave	3,232,630	402,233	(949,482)	2,685,381	350,611	2,334,770
Early retirement / reduction in workforce medical benefits	-	455,892	-	455,892	455,892	-
Total other liabilities	6,924,760	1,132,564	(1,779,321)	6,278,003	1,148,701	5,129,302
Total long-term liabilities	$ 89,563,328	$ 52,361,891	$ (8,694,423)	$ 133,230,796	$ 8,633,951	$ 124,596,845

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

	2011					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Capital leases payable	$ 86,016	$ -	$ (39,969)	$ 46,047	$ 41,856	$ 4,191
General obligation						
Series of 1995 D	950,000	-	(950,000)	-	-	-
Series of 2004	14,645,000	-	(2,175,000)	12,470,000	1,745,000	10,725,000
Series of 2005	2,940,000	-	(550,000)	2,390,000	570,000	1,820,000
Series of 2008	25,170,000	-	(1,155,000)	24,015,000	1,200,000	22,815,000
Series of 2009	17,390,000	-	(5,000)	17,385,000	585,000	16,800,000
Series of 2009A	12,610,000	-	(1,230,000)	11,380,000	1,280,000	10,100,000
Series of 2010	15,280,000	-	-	15,280,000	5,000	15,275,000
Revolving loan	781,664	-	(316,943)	464,721	310,792	153,929
Bond premium	37,671	-	(2,686)	34,985	2,686	32,299
Bond discount	(523,163)	-	10,602	(512,561)	(30,971)	(481,590)
Loss on refinancing	(332,580)	-	17,956	(314,624)	(20,031)	(294,593)
Total leases and bonds/ notes payable	89,034,608	-	(6,396,040)	82,638,568	5,689,332	76,949,236
Other liabilities						
Compensated absences						
Vacation leave	3,309,695	536,955	(154,520)	3,692,130	215,380	3,476,750
Sick leave	2,747,158	640,538	(155,066)	3,232,630	81,588	3,151,042
Total other liabilities	6,056,853	1,177,493	(309,586)	6,924,760	296,968	6,627,792
Total long-term				-		
liabilities	$ 95,091,461	$ 1,177,493	$ (6,705,626)	$ 89,563,328	$ 5,986,300	$ 83,577,028

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2012 and 2011, that were used to finance various construction projects and other improvements, consisted of the following:

	2012	2011
2004, issued $26,530,000 in July 2004; at a fixed rate of 2.25% - 5.25%, interest and principal payable semi-annually through April 2025.	10,725,000	12,470,000
2005, issued $5,435,000 in July 2005; at a fixed rate of 3.00% - 4.00%, interest and principal payable semi-annually through April 2015.	1,820,000	2,390,000
2008, issued $26,275,000 in December 2008; at a fixed rate of 4.00% - 5.75%, interest and principal payable semi-annually through October 2029.	22,815,000	24,015,000
2009, issued $17,390,000 in May 2009; at a fixed rate of 2.00 - 4.50%, interest and principal payable semi-annually through October 2027.	16,800,000	17,385,000
2009A, issued $12,610,000 in November 2009; at a fixed rate of 2.00% - 4.00%; interest and principal payable semi-annually through October 2024.	10,115,000	11,380,000
2010, issued $15,280,000 in May 2010; at a fixed rate of 3.00% - 4.00% interest and principal payable semi-annually through October 2030.	15,275,000	15,280,000
2011 issued $51,010,000 in December 2011, at a fixed rate of 2.00% - 5.00% interest and principal payable semi-annually through October 2031.	49,790,000	-
Total bonds payable	$127,340,000	$ 82,920,000

The bonds are guaranteed by a municipal bond insurance policy. In addition, the College has pledged to include debt service payments due each fiscal year in its budget for such fiscal year.

Note Payable

The revolving loan note payable of $138,929 and $464,721 for the years ended June 30, 2012 and 2011, respectively, to the State Public School Building Authority (SPSBA) dated April 1, 2008 has a fixed interest rate of 2.78% and a maturity date of December 1, 2012. Interest and principal are payable semi-annually beginning June 1, 2008. This note was fully drawn as of June 30, 2009 for the full amount of $1,575,000.

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Future Maturities

Under an agreement with the Commonwealth of Pennsylvania, 50%-52% of the principal and interest on certain outstanding SPSBA bonds and notes payable eligible for state reimbursement will be paid by the Commonwealth on a reimbursement basis. The combined aggregate amounts of maturities of all bonds and notes are as follows:

Year Ending June 30,	State Share Principal	State Share Interest	College Share Principal	College Share Interest	Principal	Interest	Total
2013	$ 3,029,465	$ 1,892,023	$ 4,489,464	$ 3,422,335	$ 7,518,929	$ 5,314,358	$ 12,833,287
2014	3,062,500	1,792,570	4,567,500	3,276,444	7,630,000	5,069,014	12,699,014
2015	2,490,000	1,684,157	4,680,000	3,109,763	7,170,000	4,793,920	11,963,920
2016	2,252,500	1,595,301	4,077,500	2,957,545	6,330,000	4,552,846	10,882,846
2017	2,347,500	1,503,498	4,232,500	2,800,111	6,580,000	4,303,609	10,883,609
2018-2022	11,752,500	6,013,233	21,397,500	11,346,621	33,150,000	17,359,854	50,509,854
2023-2027	11,415,000	3,396,938	21,885,000	6,473,319	33,300,000	9,870,257	43,170,257
2028-2032	9,085,000	1,089,644	16,715,000	1,778,481	25,800,000	2,868,125	28,668,125
Total	$ 45,434,465	$ 18,967,364	$ 82,044,464	$ 35,164,619	$ 127,478,929	$ 54,131,983	$ 181,610,912

Total interest incurred on outstanding SPSBA bonds and notes payable at June 30, 2012 was $4,308,400. Total interest expensed was $4,279,203 and total interest capitalized was $29,197.

NOTE 8 – LEASES

Capital Leases

The College has entered into capital leases for certain equipment and vehicles. At June 30, the leased assets are as follows:

	2012	2011
Amount capitalized	$ 378,876	$ 378,876
Accumulated amortization	(350,364)	(330,915)
Net book value	$ 28,512	$ 47,961

Amortization expense of $19,449 for both 2012 and 2011 is included with depreciation expense.

The future minimum lease payments under capital leases as of June 30, 2012 are as follows:

2013	4,193
Present value of future minimum lease payments	$ 4,193

NOTE 8 – LEASES (CONTINUED)

Operating Leases

The College has entered into noncancelable operating leases for certain campus facilities and equipment. Minimum lease payments in future years are as follows:

	2012
2013	5,292,448
2014	4,113,521
2015	3,599,584
2016	3,422,878
2017	2,873,938
2018-2022	14,423,595
Total minimum lease payments	$33,725,964

The total rent expense under operating leases for the years ended June 30, 2012 and 2011 was $7,552,357 and $8,866,476, respectively.

NOTE 9 – DUE TO THE COMMONWEALTH OF PENNSYLVANIA

Included in accounts payable and accrued expenses are amounts due to the Commonwealth of Pennsylvania as of June 30, representing the outstanding deficiency of reimbursable operating and capital expenditures compared to the advances received from the Commonwealth. The following table presents outstanding amounts due to the Commonwealth by originating fiscal year:

	2012	2011
2010-2011	$ -	$ 500,612
2011-2012	264,662	-
TOTAL	$ 264,662	$ 500,612

Under the terms of the Commonwealth Community College Funding Legislation (Act 46), annual audits are performed by each College’s external audit firm and reports are submitted to the Department of Education for review. Such audits could lead to reimbursement of appropriated funds to the Commonwealth. College management believes that reimbursements, if any, will be immaterial.

NOTE 10 – RISK MANAGEMENT

The College is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and students, and natural disasters.

The College has purchased commercial insurance to cover general and professional liability, directors and officers liability, worker’s compensation, accident insurance, flood, unemployment compensation, and employees’ health coverage. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The College is self-insured for dental coverage and a prescription drug plan. The liability for estimated claims at June 30, 2012 represents three months of claims paid. During the year ended June 30, 2011, the College entered into a self-insured prescription drug plan. Claims paid totaled $2,097,584 for the year ended June 30, 2012 and $868,599 for the first six months of the program in 2011. The College set up a reserve account of $175,000, which is based on management's estimates and the prior activity in the prescription plan. The dental coverage and the prescription drug plan liabilities are included in accounts payable and accrued expenses on the statements of net assets. Changes in the College's claims liability amount for the years ended June 30 were:

	2012	2011
Beginning balance	$ 312,232	$ 148,244
Claims made/changes in estimates	2,791,782	1,681,513
Claims paid	(2,762,728)	(1,517,525)
Ending Balance	$ 341,826	$ 312,232

NOTE 11 – PENSION BENEFITS

Pension Plans

Substantially all of the employees of the College are covered by one of three multi-employer contributory pension plans: the Teachers Insurance and Annuity Association – College Retirement Equities fund (TIAA-CREF), the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS), or the Commonwealth of Pennsylvania State Employees' Retirement System (SERS).

The Public School Employees' Retirement System (PSERS) and the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) are governmental cost-sharing multiple-employer defined benefit plans. PSERS provides retirement and disability benefits, legislatively mandated *ad hoc* cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535) is the authority by which benefit provisions are established and may be amended. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125. SERS also provides retirement, death, and disability benefits, and legislatively mandated *ad hoc* cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania State Employees' Retirement System, P.O. Box 1147, Harrisburg, Pennsylvania 17108.

NOTE 11 – PENSION BENEFITS (CONTINUED)

The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Most active members contribute at a rate of 5.25% of their qualifying compensation. However, effective January 1, 2002, employees could make an election to increase from 5.25% to 6.50%. Members joining PSERS on or after July 22, 1983 contribute at a rate of 6.25%. However, effective January 1, 2002, employees could make an election to increase from 6.25% to 7.50%. The contribution rate for the College's contribution is an actuarially determined rate. The contribution rate for the College contribution at June 30, 2012, 2011, and 2010 was 4.325%, 2.82%, and 2.39%, respectively, of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2012, 2011, and 2010, were $221,346, $131,830, and $97,111, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan.

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was 4.83% for Class A and 6.99% for Class AA for the year ended June 30, 2012, 3.29% for Class A and 4.11% for Class AA for the year ended June 30, 2011 and 2.52% for Class A and 4.11% for Class AA for the year ended June 30, 2010, respectively. The College's contributions to SERS for the years ended June 30, 2012, 2011, and 2010, were $565,062, $310,224, and $221,951, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing, multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the Plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a minimum rate of 5% of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2012, 2011, and 2010 was 10% of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity.

The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2012	2011	2010
College	$ 5,338,446	$ 4,925,211	$ 4,637,261
Employees	4,583,429	4,325,163	4,305,828

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The College has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the College. The Plan provides medical and prescription drug coverage for both retiree and family. To continue coverage upon retirement, the retiree must reimburse the College 100% of the College's cost of coverage. After age 65, the coverage shall change to a Medicare Supplement Plan with a Medicare Part D Prescription Drug rider or with the plan prescription drug at an adjusted premium.

Funding Policy

The contribution requirements of plan members and the College are established and may be amended by the College. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the College. For fiscal years 2012 and 2011, the College contributed $70,576 and $76,999, respectively, in the form of additional premiums for active employees based on implicit rates for retired employees to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation to the Plan:

	2012	2011
Annual required contribution (ARC)	$ 315,380	$ 272,899
Interest on net OPEB obligation	23,737	15,170
Adjustment to ARC	(32,383)	(20,695)
Annual OPEB cost	306,734	267,374
Employer contributions made	(70,576)	(76,999)
Increase in net OPEB obligation	236,158	190,375
Net OPEB obligation – beginning of the year	527,480	337,105
Net OPEB obligation – end of the year	$ 763,638	$ 527,480

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, 2011 and 2010 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	June 30 Net OPEB Obligation
2012	$ 306,734	23%	$ 763,638
2011	$ 267,379	29%	$ 527,480
2010	$ 270,910	20%	$ 337,105

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unfunded AAL (UAAL) Entry Age	AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	$ -	$ 1,694,666	$ 1,694,666	0.00%	$ 52,739,477	3.21%
7/1/2009	-	1,400,030	1,400,030	0.00%	48,710,163	2.87%
7/1/2007	-	1,488,936	1,488,936	0.00%	41,908,646	3.55%

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 12 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5% investment rate of return (net of administrative expenses), annual salary increase of 4.25-7%, and an annual healthcare cost trend rate of 8% in 2011, decreasing 0.5% to an ultimate rate of 5.5% in 2016 and later. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized using a level dollar method over a 30 year open amortization period.

NOTE 13 – EARLY RETIREMENT AND REDUCTION IN WORKFORCE BENEFITS

Early Retirement

During the year, the College offered to its full-time employees a one-time early retirement incentive. To be eligible for this incentive, employees had to be age 50 and have at least ten years of regular full-time service to the College or at least twenty years of regular full-time service to the College and agree to retire by June 30, 2012. Employees meeting these requirements were entitled to four weeks of pay plus one week of pay for each year of regular full-time service with the College, entitled to a contribution to their retirement account equal to 10% of the early retirement incentive (TIAA-CREF participants only) and entitled to be paid unused vacation and sick leave in accordance with the College policy. This incentive also allowed eligible employees to receive healthcare benefits at the current active employee cost share for the same number of weeks in addition to the eighteen month COBRA continuation period and the regular HACC retirement benefits.

The College had forty-nine employees that met the requirements and accepted the retirement incentive. Total cost to the College was $4,029,795 for the year ended June 30, 2012 of which $2,391,970 is to be paid in year ending June 30, 2013. Amounts remaining to be paid in the future years total are recorded in accrued expenses and the current portion of long – term liabilities on the Statements of Net Assets.

Reduction in Workforce Benefits

Due to decreased outside support, decreased enrollment and implementation of strategic efficiencies, the College realigned its budget for the year ending June 30, 2013. Part of this realignment included elimination of positions during year ended June 30, 2012.

Effected employees were entitled to four weeks of pay plus one week of pay for each year of service to the College. In addition, eligible employees were entitled to a contribution to their retirement account equal to 10% of the severance pay (TIAA-CREF participants only). Terminated employees were also entitled to receive healthcare benefits at the current active employee cost share based on an agreed upon extended benefits date and were entitled to be paid unused vacation and sick leave in accordance with the College policy.

There were forty-four employees terminated as of June 30, 2012 with a total cost to the College of $1,266,567 of which $784,830 is to be paid in year ending June 30, 2013. Amounts remaining to be paid in the future years total are recorded in accrued expenses and the current portion of long – term liabilities on the Statements of Net Assets.

NOTE 14 – CONTINGENCIES AND COMMITMENTS

Contingencies

The nature of the educational industry is such that, from time to time, the College is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and/or destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. Management does not expect that the resolution of any outstanding claims and litigation, of which there are several being defended by the College, will have a material adverse effect on the financial position of the College.

Lancaster Campus Phase II Construction Disputes

Harrisburg Area Community College (HACC) leased the Lancaster Campus from Pitney Road Partners, LLC (Pitney) under an agreement that included an option to purchase. Under this agreement, Pitney agreed to construct a new building at the Lancaster Campus and contracted with Warfel Construction Company (Warfel). Pitney financed the construction of the Lancaster Campus through the issuance of bonds backed by a letter of credit issued through a consortium of banks (Lender Group). Although the contract between Pitney and Warfel contained a guaranteed maximum price, disputes arose between them regarding the final construction costs. The dispute proceeded to arbitration, and after extensive settlement negotiations, Warfel agreed to accept a total of $4.9 million. Of that amount, approximately $2.1 million was covered by the balance held in a project fund. Pitney and HACC each agreed to contribute an amount slightly in excess of $1.4 million, achieving the total cash payment to Warfel of $4.9 million. The $1.4 million agreed to by HACC was paid in August 2007, and recorded as other assets pending the outcome of the arbitration process and the final determination of exercising the option to purchase.

Pitney initiated litigation against HACC to recover the additional construction costs awarded by the arbitration panel to Warfel, as well as other alleged damages. Indirectly as a result of the disputes and litigations pending, the trustee called one of the series of bonds, resulting in the drawdown of the letter of credit supporting the bonds and a default under the financing arrangements. The Lender Group agreed to forebear on any claims or potential claims against Pitney and HACC arising out of the alleged defaults in the financial agreements, while Pitney and HACC resolve their disputes. Pitney and HACC agreed to arbitrate all disputes between them, including which party is responsible for the cost overruns paid to Warfel and for the claims of the Lender Group.

On June 14, 2011, the arbitrators issued an interim award. The arbitrators awarded Pitney most of the additional construction costs Pitney incurred, and they also reaffirmed HACC's contractual right to purchase the Campus. The arbitrators concluded that HACC should have been able to purchase the property as of January 1, 2010. The arbitrators requested additional submissions from the parties regarding calculation of purchase price and other miscellaneous issues.

On September 29, 2011 the arbitrators issued a final award which allowed HACC to purchase the Campus with a settlement date of December 15, 2011. The final purchase price determined by arbitrators was $51,083,974. Subsequent to the final award, additional disputes arose between the parties regarding various aspects of the purchase price, transfer taxes and rent. Although Pitney's position was that these disputes precluded closing from proceeding, the College obtained a Court Order to compel the closing to occur as scheduled, with the disputes to be resolved following closing. The College purchased the property through bond funding of $51,010,000 with the remaining funds provided through an escrow account held for the purchase of the Campus.

NOTE 14 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

Lancaster Campus Phase II Construction Disputes (Continued)

The total additional amounts claimed by Pitney in the remaining four disputed matters are slightly in excess of $3.7 million. Two of the disputed matters were appeals filed by Pitney in Superior Court, which heard oral arguments on September 11, 2012. The other two matters are being heard by the Arbitration Panel with a hearing scheduled in November 2012. Final decisions from the presiding authorities are not expected until 2013. The College disputes the merits of these additional claims and does not believe that the ultimate resolution will result in an unfavorable outcome that will be material to the financial statements.

Commitments

As of June 30, 2012, the College had commitments for the following projects:

	Total Estimated Costs	Total Costs Paid
PSC	$ 14,800,334	$ 10,688,095
York Leader Renovation	576,000	501,797
Gettysburg Parking Lot	1,002,904	119,092
Gettysburg Flood Renovations	1,100,000	686,244
IT Closet Upgrades	463,000	287,227
Total	$ 17,942,238	$ 12,282,455

NOTE 15 – STATE APPROPRIATIONS

The following details the state appropriations earned for the years ended June 30:

	2012	2011
Included in non-operating revenue:		
Social security reimbursement	$ 3,119,420	$ 2,944,154
Tuition reimbursement	29,664,165	29,950,785
Sub-total	32,783,585	32,894,939
Included in capital contributions:		
Debt reimbursement	3,964,867	3,545,544
Lease reimbursements	2,827,015	3,613,093
Sub-total	6,791,882	7,158,637
Total	$ 39,575,467	$ 40,053,576

NOTE 16 – NET ASSETS

College

The following shows the details of net assets invested in capital assets, net of related debt, at June 30:

	2012	2011
Capital assets, net	$ 196,881,781	$ 138,064,097
Bonds and notes payable, net	(126,948,600)	(82,592,521)
Capital lease payable	(4,193)	(46,047)
Unspent bond proceeds	4,202,914	16,039,490
Total	$ 74,131,902	$ 71,465,019

The remaining net assets of the College are considered unrestricted.

HACC Foundation

Permanently restricted net assets are to provide a permanent endowment restricted for various purposes as follows at June 30:

	2012	2011
Scholarships and awards	$ 13,586,514	$ 13,513,033
Academic support	216,624	223,850
Other	2,033,535	2,142,217
Total	$ 15,836,673	$ 15,879,100

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	2012	2011
Endowments	3,382,895	2,720,252
Capital improvements	3,284,458	2,931,290
Other	7,555,308	8,206,045
Total	$ 14,222,661	$ 13,857,587

The Foundation's unrestricted net assets consisted of the following at June 30:

	2012	2011
Designated for endowment purposes	$ 976,555	$ 983,855
Undesignated	733,274	1,142,817
Total	$ 1,709,829	$ 2,126,672

NOTE 17 – EXPENSES BY FUNCTIONAL CLASSIFICATION

The College reports expenses by natural classification in the statement of revenues, expenses and changes in net assets. The following are the College's expenses reported by functional classification for the years ended June 30:

Function	2012	2011
Instruction	$ 68,975,861	$ 67,020,513
Research	4,111	1,635
Public Support	94,727	30,950
Academic support	11,432,989	9,544,546
Student services	18,275,969	15,885,591
Institutional support	27,468,812	26,678,317
Operation and maintenance of plant	30,007,857	26,282,258
Student aid	115,843,997	109,311,618
Auxiliary	12,757,889	12,689,543
	$ 284,862,212	$ 267,444,971

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued the following statements not yet implemented by the College. The College's management is currently evaluating these standards to determine the effect, if any; these statements will have on the College's financial statements.

GASB Statement No. 61, the Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34, will be effective for the College for the year ending June 30, 2013. The objective if this statement is to modify certain requirements for inclusion of component units in the financial reporting entity. This statement amends Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, will be effective for the College for the year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of these statements.

GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, will be effective for the College's Pension Plans for the year ending June 30, 2014. The objective of this statement is to standardize accounting and financial reporting for the activities of pension plans that are administered through trusts and meet the characteristics as defined by this statement. The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information.

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, will be effective for the College for the year ending June 30, 2015. The objective of this statement is to establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

NOTE 19 – SUBSEQUENT EVENTS

On June 16, 2012, the College entered into an agreement to purchase the York Campus and paid an initial deposit of $50,000 that is being held in escrow. The College's management is currently completing due diligence for the purchase of the campus and is expected to be purchased through bond financing.

As part of the College's realignment initiative, management announced on October 2, 2012 that the C. Ted Lick Wildwood Conference Center will be closed effective December 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISBURG AREA COMMUNITY COLLEGE
OPEB (Other Post Employment Benefit Plan)
UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS
June 30, 2012 and 2011

Schedule of Funding Progress for Other Post Employment Benefits

The *Governmental Accounting Standards Board* (GASB) has issued *Statement Number 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The following schedule is required and represents the funding progress of the plan for Harrisburg Area Community College since the first year of implementation. Please refer to Note 12 of the Notes to the financial statements on pages 38-40 for a more detailed description of Harrisburg Area Community College's reporting of Other Post Employment Benefits (OPEB) for fiscal year 2012.

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unfunded AAL (UAAL) Entry Age	AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	$ -	$ 1,694,666	$ 1,694,666	0.00%	$ 52,739,477	3.21%
7/1/2009	-	1,400,030	1,400,030	0.00%	48,710,163	2.87%
7/1/2007	-	1,488,936	1,488,936	0.00%	41,908,646	3.55%

SUPPLEMENTAL INFORMATION

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL
CLASSIFICATION – PRIMARY INSTITUTION
Year Ended June 30, 2012

	2012								
FUNCTIONAL CLASSIFICATION	**NATURAL CLASSIFICATION**								
	Salaries and Wages	**Fringe Benefits**	**Supplies and Other Expenses**	**Professional and Purchased Services**	**Utilities**	**Depreciation**	**Federal Direct Loan Program**	**Scholarships**	**Total**
Instruction	$ 49,926,742	$ 13,547,109	$ 3,669,338	$ 1,519,246	$ 137,577	$ -	$ -	$ 175,849	$ 68,975,861
Research	-	-	4,111	-	-	-	-	-	4,111
Public support	66,813	-	27,714	200	-	-	-	-	94,727
Academic support	6,968,201	2,538,501	1,664,831	261,456	-	-	-	-	11,432,989
Student services	11,980,475	4,876,657	572,196	846,141	-	-	-	500	18,275,969
Institutional support	11,138,119	5,208,677	6,689,381	2,278,619	236	2,153,780	-	-	27,468,812
Operation and maintenance of plant	3,848,905	1,970,538	11,538,756	1,264,772	3,941,614	7,443,272	-	-	30,007,857
Student aid	484,016	-	44,903	(995)	-	-	89,753,813	25,562,260	115,843,997
Auxiliary enterprises	1,467,295	568,153	10,531,136	105,484	85,821	-	-	-	12,757,889
Total operating expenses	85,880,566	28,709,635	34,742,366	6,274,923	4,165,248	9,597,052	89,753,813	25,738,609	284,862,212
Interest expense									4,279,203
Total expenses									$ 289,141,415

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION – PRIMARY INSTITUTION
Year Ended June 30, 2011

2011

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION								
	Salaries and Wages	Fringe Benefits	Supplies and Other Expenses	Professional and Purchased Services	Utilities	Depreciation	Federal Direct Loan Program	Scholarships	Total
Instruction	$ 48,639,015	$ 12,107,847	$ 4,130,235	$ 1,692,628	$ 174,745	$ -	$ -	$ 276,043	67,020,513
Research	-	-	1,635	-	-	-	-	-	1,635
Public support	13,970	1,251	14,404	1,325	-	-	-	-	30,950
Academic support	5,828,453	1,843,832	1,712,096	160,165	-	-	-	-	9,544,546
Student services	10,552,382	3,970,505	724,604	628,100	-	-	-	10,000	15,885,591
Institutional support	9,935,985	6,287,301	6,146,877	2,078,026	-	2,230,128	-	-	26,678,317
Operation and maintenance of plant	3,578,477	1,711,228	8,519,646	1,398,268	4,174,031	6,900,608	-	-	26,282,258
Student aid	477,039	-	40,282	-	-	-	84,591,261	24,203,036	109,311,618
Auxiliary enterprises	1,392,885	551,282	10,588,361	67,030	89,985	-	-	-	12,689,543
Total operating expenses	80,418,206	26,473,246	31,878,140	6,025,542	4,438,761	9,130,736	84,591,261	24,489,079	267,444,971
Interest expense									3,128,689
Total expenses									$ 270,573,660

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the financial statements of the business-type activities and the discretely presented component unit of Harrisburg Area Community College (the College) as of and for the year ended June 30, 2012, which collectively comprise the College's financial statements and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described below as finding 2012-01 to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Finding: 2012-01

Condition: There is no electronic approval of non-credit adjunct instructor pay rates.

Cause: There is no formal approval procedure in place in the Banner system for non-credit adjunct instructors.

Effect: Non-Credit adjunct payroll expenditures could be reported inaccurately and improper payments to non-credit adjunct instructors could be made.

Context: The College's payroll module in the Banner system has an electronic function for approval of employee pay rates prior to initiating the payroll transactions. This function is currently used for full-time, permanent part-time employees, and adjunct professors that teach credit courses. However, the function is not used for non-credit adjunct instructors. Non-credit adjunct instructors are paid at varying rates in accordance with each instructor's arrangement with the College, and are therefore susceptible to fraud or error. We understand that management has researched the feasibility of electronic approval for non-credit adjunct instructors and is currently developing and testing the process for implementation.

Recommendation: We recommend management continue its efforts to implement a formal approval process for non-credit adjunct instructors pay rates within the Banner system.

Corrective Action Plan: Management successfully tested the applicable Banner modules related to non-credit adjunct instructor electronic timesheets and approvals and is in the process of developing a formal non-credit adjunct instructor base pay schedule with full implementation scheduled in June 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management and the finance committee in a separate letter dated October 23, 2012.

The College's responses to the findings identified in our audit are described above. We did not audit the College's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee, management, and others within the College and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
October 23, 2012