

HOWARD COMMUNITY COLLEGE
(A Component Unit of Howard County, Maryland)

Financial Statements Together with
Report of Independent Public Accountants

For the Year Ended June 30, 2010



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2010

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Howard Community College

We have audited the accompanying financial statements of the Howard Community College (the college) and its discretely presented component unit, the Howard Community College Educational Foundation, Inc., a component unit of Howard County, Maryland as of and for the year ended June 30, 2010, 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 an opinion on these component unit financial statements based on our audit.

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 of America. Those standards require that we plan and perform the audit 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 component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the college and its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows for the year 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 September 17, 2010, on our consideration of Howard Community College's internal control over financial reporting and 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 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.



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The Management's Discussion and Analysis on pages 3 through 20, is not a required part of the basic component unit financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary data. However, we did not audit the information and express no opinion on it.

Hunt Valley, Maryland
September 20, 2010

SB & Company, LLC

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Overview and Basis of Presentation

The following discussion and analysis provides an overview of Howard Community College's (referred to throughout as the college or HCC) planning, enrollment, and financial activities. The intent of this section of the annual financial report is to provide an objective analysis of the college's financial activities based on currently known facts, decisions, or conditions that impacted the operations of the college during fiscal year 2010. In addition, this section should assist you in assessing the financial position of the college and should provide information about significant changes that have occurred. Finally, it should present an outlook on known conditions that may affect the college's financial position or operations in the coming years.

In 1999, the Governmental Accounting Standards Board (GASB) released 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 for Public Colleges and Universities* which established a new reporting model for public institutions. The college has presented the statements in compliance with this reporting model.

In compliance with GASB no. 39 *Determining Whether Certain Organizations are Component Units*, the financial statements of the Howard Community College Educational Foundation, Inc. (referred to throughout as the foundation or HCCEF) are presented discretely in the college's financial statements. Comparative financial data are not presented in the financial statements; however, the college's comparative data are presented and discussed within this management discussion and analysis.

College Planning and Strategic Goals

The financial statements for the year ended June 30, 2010, reflect the financial results of the activities of the college, which are guided by the college's strategic planning and budget process. The strategic plan and the college's core work set the stage for the operational and financial goals the college expects to achieve and guide the staff throughout the year and into the future. The college's Mission, Vision and Values follow.

Mission: Providing pathways to success.

Vision: A place to discover the greatness in yourself and others.

Values: INSPIRES

- Innovation
- Nurturing
- Sustainability
- Partnerships
- Integrity
- Respect
- Excellence
- Service

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

College Planning and Strategic Goals (continued)

The strategic goals implemented for a five-year period, 2010 - 2015 (using 2010 as a base year), with 2010 being the base year, and the action plans in place for fiscal 2010 were:

1. Student success and lifelong learning

- 1.1. Increase percentage of developmental completers, 4 years after entry to HCC, from 35.8% to 40%.
 - 1.1A. Implement College Readiness Program by testing 11th grade English ‘regular’ students at all (12) Howard County Public schools and assisting students who fall short of being college ready.
 - 1.1B. Investigate best practice peers and formulate a plan to increase number of developmental completers.
- 1.2 Increase student successful-persistence rate after 4 years for all students from 73.2% to 80%.
 - 1.2A Study impact of new academic standing policy.
 - 1.2B Design an early warning tracking system to allow faculty and staff to flag at-risk students, notify appropriate personnel, and connect students to appropriate resources.
 - 1.2C Develop outcomes for First Year Experience (FYE) courses and select metrics to track improved student learning.
- 1.3 Increase graduation and transfer rate after 4 years for all students from 51.9% to 60%.
 - 1.3A Identify gateway courses and pilot interventions to improve student success utilizing best practices from the *Achieve the Dream* project and others.
 - 1.3B Revamp the general education core and track impact on degree completion.

2. Organizational excellence

- 2.1 Increase percentage of minority employees to reflect the county demographics from 22.1% faculty and 20.9 staff to 23% for both.
 - 2.1A Improve faculty and staff recruitment efforts and outcomes.
- 2.2 Increase stakeholder satisfaction for students from 37.5% credit students and for employees from 4.29 to 4.35.
 - 2.2A Examine workloads, redistribute responsibilities, and create efficiencies to ensure continued quality service to students and one another given projected stationery staffing levels.
- 2.3 Increase development/training expenditure per FTE employee from \$828 to \$900.
 - 2.3A Explore opportunities for faculty and staff to design, lead and share professional development opportunities in-house and establish Maryland Occupational Safety and Health (MOSH) training benchmarks for areas.
- 2.4 Reduce HCC's carbon footprint 3.7 MMBTU's*/FTE to 3.1 MMBTU's*/FTE (*metric tons of carbon dioxide emissions)
 - 2.4A The Facilities and Sustainability Team (FAST) will define and implement metrics for sustainability.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

College Planning and Strategic Goals (continued)

3. Building Partnerships

- 3.1 Increase resources to provide scholarships and facilities to students.
 - 3.1A Implement the second year of a \$4,000,000 capital campaign. Raise \$1,400,000 by the end of FY10 for scholarships, endowments, and capital projects.
 - 3.1B Maintain the competitive grant income at the \$2,500,000 level in FY10.
- 3.2 Increase opportunities to serve the regional needs.
 - 3.2A Refine the adult learner initiative, involving the Weekend College, veterans, and distance learning courses. Increase the percentage of enrollment of students between the ages of 25 and 44.
 - 3.2B Implement the Southeast Healthcare Initiative project.
 - 3.2C Increase the draw rate of HCPSS recent high school graduates to 26 percent by continuing to promote the honors brand while also providing outreach to at-promise high school students and students in the middle.

Each year during the budget process, funds are allocated to achieve these initiatives. The fiscal year accomplishments related to these goals, which impacted the college's financial operations, are outlined below.

Student Success and Lifelong Learning:

The following was accomplished by goal:

- 1.1A Placement testing was expanded in the 12 county high schools and four collaborative presentations were conducted to share the results.
- 1.1B Faculty developed an Accelerated Learning Program pilot for College Composition I, and developed a proposal to adjust the placement cutoff score in alignment with state norms, an HCC student data analysis was done to place students into a noncredit English program, and continued to be involved in national efforts to improve the K-12 mathematics curriculum to reduce the high school/college readiness gap.
- 1.2A The staff is studying the impact of the new academic standing policy and the results are favorable.
- 1.2B The committee is evaluating products available to provide a recommendation.
- 1.2C The FYE committee identified objectives to be added to every FYE course syllabus, the outcomes will then be tracked and studied.
- 1.3A The staff have accelerated efforts with the Howard County Public School System concerning college readiness, revised the academic standing policy and created a new warning category for early intervention, and revised the general education core to allow students to complete it sooner with more choices. In addition, staff implemented a pilot project to improve student performance in

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

College Planning and Strategic Goals (continued)

the gateway course, Principles of Accounting I, and faculty revamped college algebra to better meet the needs of students by creating a blend of lecture, group work, application projects and computerized practice.

- 1.3B Revision of the general education core of every Associate of Arts degree program from 36 to 30 credits is being done to allow students to complete a world language sequence, promoting transfer at the junior level to one of our primary receiving institutions.

Organizational Excellence:

The following was accomplished by goal:

- 2.1A Additional minority measures were initiated for recruitments.
- 2.2A Quest ratings for employee satisfaction moved from 4.32 to 4.34 in Fall 2009.
- 2.3A I-house professional development attendees increased 7.6 percent since 2007 and MOSH web net training was developed.
- 2.4A As of the fall of 2009, the footprint was reduced to 3.3 MMBTU's.

Building Partnerships:

The following was accomplished by goal:

- 3.1A Efforts continued and outcomes have not meet expectations due to economic conditions. Only \$838,370 was raised in FY10.
- 3.1B This was accomplished with \$2,531,482 received.
- 3.2A The cohort increased 13 percent from fall 2008.
- 3.2B Advising sessions at the North Laurel/Savage Multiservice Center continued, but attendance has decreased. The college will continue to evaluation this effort.
- 3.2C While the percentage has increased to 25.4 percent which exceeds the 25 percent goal for 2009, efforts continue to get to the 26 percent mark.

In addition to these strategic goals, core work goals which significantly impacted spending in fiscal 2010 included, by area, the following:

Academic Affairs:

- Developed 10 new programs and program options
- Initiated online grading
- Developed a new Hindi textbook
- Continued planning and program identification for the Mount Airy College Center for Health Care Education

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

College Planning and Strategic Goals (continued)

Administration and Finance:

- Completed the facilities master plan
- Completed the Clark Library Hall renovation and final phase of the athletic fields project
- Completed planning phase for the second parking garage and the schematic design phase for the health sciences building
- Completed the expansion of parking lot "F" and the stream restoration project
- Had \$140,000 in cost savings by participating in Baltimore Gas and Electric Company's Smart Energy program
- Implemented an energy metering program and an energy reduction program
- Completed a continuity of operations plan and a campus-wide security threat assessment
- Implemented e-checks for accounts payable, web time entry for payroll and web processing for capital projects

Information Technology:

- Implemented the colleague advancement module for foundation accounting to integrate with colleague financials; upgraded Image Now
- Implemented business object tools
- Initiated the upgrade of the content management system supporting the college's web site and designed a new home page
- Installed new high speed production copier in the print shop and installed 39 office copiers
- Initiated computer and network security and computer systems vulnerability audits
- Replaced 775 computers in classrooms and labs
- Implemented the first phase of digital signage
- Upgraded 80 printers
- Upgraded network connectivity speeds and the internet connection
- Completed phase I of the new phone system upgrade

President's Area:

- Advocated for legislative agenda that provided capital funding and stabilized the operating appropriation
- Supported the college's \$4 million campaign for student scholarships and endowments and secured grants for fiscal 2010 and 2011
- Produced a new visual identity for HCC promotional publications
- Facilitated campus beautification and sustainability efforts and cultivated donors through events, friend raising, special events, and donor research

Student Services

- Developed and implemented a direct lending plan and program
- Developed student landing page targeted to teens and adult learners

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

College Planning and Strategic Goals (continued)

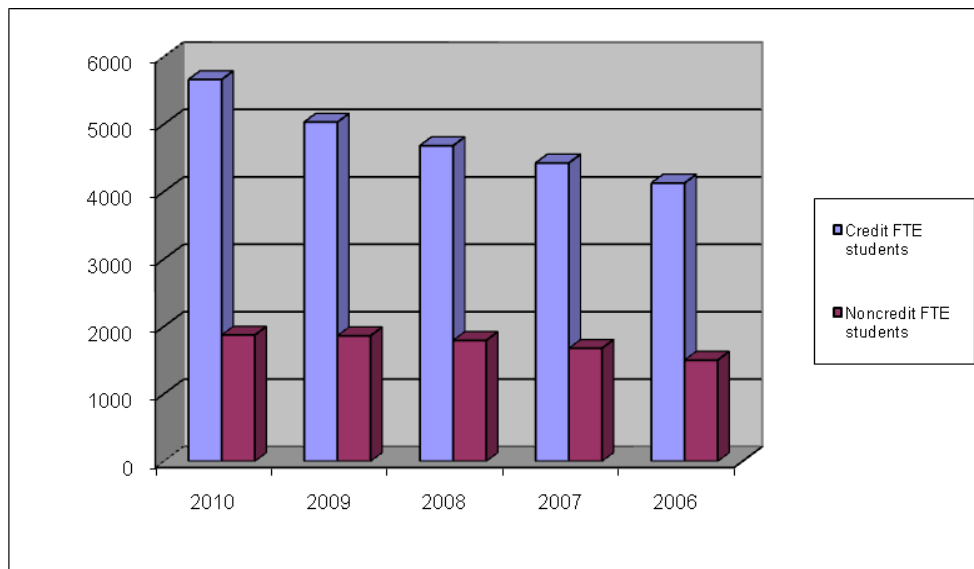
Student Services (continued):

- Implemented a new version of Web Advisor
- Launched the Assessment and Intervention for Students program that included installing icons on all college desktops and provided training for faculty and staff

Enrollment Statistics and Analysis

For the year-ended June 30, 2010, the college served approximately 12,851 credit and 16,780 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Educational Commission in terms of full-time equivalent students (FTES), which represent 30 hours of instruction. An FTE is an important statistic of the college. It is the basis for comparison among the various state colleges and is, in part, what determines the college's state funding.

During the current fiscal year, the state approved credit and noncredit enrollments of 5,445.34 and 1,452.18 FTES, for a total increase of 10.13 percent. State-funded FTES do not include out-of-state students, employees who took classes, and other ineligible students determined by the state. Overall, credit FTES of 5,662.34 and noncredit FTES of 1,872.90 increased 12.6 percent and .6 percent, respectively. Together this number created a total increase in FTES for the year of 642.28 or 9.3 percent. The credit enrollment increase was higher than anticipated. The FY10 budget included only a 3 percent increase. The chart below shows total FTES as opposed to state-funded FTES for the fiscal years 2006 through 2010.



	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Credit	<u>5,662.34</u>	5,030.59	4,682.13	4,425.10	4,127.83
Noncredit	<u>1,872.90</u>	1,862.37	1,793.93	1,676.16	1,501.51
Total FTES	<u>7,535.24</u>	<u>6,892.96</u>	<u>6,476.06</u>	<u>6,101.26</u>	<u>5,629.34</u>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Enrollment Statistics and Analysis (continued)

As seen in the chart above, FTE growth was 33.9 percent for this five-year period. Enrollment growth continues to significantly exceed expectations. Credit enrollment is budgeted to grow 4 percent in FY11.

Economic Impact

The college's economic stability comes primarily from three revenue sources: tuition payments from students, and funding appropriations from Howard County Government and the State of Maryland. The original intent was that one-third of the college's operating funds would come from each of these sources; however in FY10 the actual unrestricted revenues were 39 percent (students), 32 percent (county), and 15 percent (state), respectively, with the final 14 percent coming from auxiliary and miscellaneous revenues. The students increased their share 3% over FY09 while Howard County Government and the State of Maryland's share both declined 1% and 2%, respectively. The student share has gradually increased over the past several years as government support has declined.

The recession continues to severely impact the county and state which in turn has impacted the college. In FY10, many areas of the Howard County Government budget were reduced and the college was fortunate to receive the same level of funding in the operating appropriation from the county that was received in the prior year. The state intended to increase the college's share of funding by 5.6 percent; however after a 5 percent cut, a .6 percent increase in the operating appropriation was received. The state funds are distributed through the Cade funding formula, with the community colleges receiving a percentage of what the four-year institutions receive in funding from the state.

The college's challenge of managing and funding growth evidenced by the double-digit enrollment statistics, continues. Meeting student needs and expectations has been the college's primary focus. In FY10, budget cuts resulted in limited hiring, traveling, and professional development of faculty and staff. In addition, no salary increases were given to college employees. The college continues to focus on managing costs through efforts in process improvement and partnering with other organizations, but it also strives to obtain adequate funding from all possible revenue sources.

Financial Statement Highlights and Analyses

The financial statements, as prepared in accordance with GASB no. 34 and no. 35, are designed to present the college as a whole unit, consolidating the various funds (operating, continuing education, special, auxiliary, and plant) and emulating corporate financial statements. The purpose of the statement of net assets is to identify the college's financial and capital resources in one consolidated statement. The statement of revenue, expenses, and changes in net assets identifies the college's operating revenue and expenses for its various programs, which also shows the support the college receives from Howard County Government, the State of Maryland, and various federal, state, and local grant programs. This statement also highlights spending in the various functional areas. Finally, the statement of cash flows identifies sources and uses of cash, and the change in the cash balance from the previous fiscal year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF NET ASSETS

ASSETS	June 30, 2010	June 30, 2009	Dollar Variance	Percentage Variance
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 26,202,423	\$ 25,124,946	\$ 1,077,477	4%
Tuition receivable, net	261,682	250,495	11,187	4%
Government grant receivable	912,347	592,054	320,293	54%
State of Maryland capital receivable	6,121,622	6,987,150	(865,528)	-12%
State of Maryland receivable	1,243,988	998,747	245,241	25%
County capital receivable	778,882	304,107	474,775	156%
Other accounts receivable	261,865	501,404	(239,539)	-48%
Inventory	710,862	691,000	19,862	3%
Prepaid expenses	742,690	283,696	458,994	162%
Total current assets	<u>37,236,361</u>	<u>35,733,599</u>	<u>1,502,762</u>	4%
Non-Current Assets				
Capital assets, net	<u>146,976,056</u>	<u>143,313,389</u>	<u>3,662,667</u>	3%
Total Assets	<u>184,212,417</u>	<u>179,046,988</u>	<u>5,165,429</u>	3%
LIABILITIES				
Current Liabilities				
Accounts payable	2,971,988	2,851,486	120,502	4%
Accrued wages	1,301,526	1,171,486	130,040	11%
Accrued compensated absences	2,015,104	1,895,939	119,165	6%
Payable to PGCC – joint venture	376,748	156,413	220,335	141%
Payable to Howard County, (construction state)	5,913,759	6,816,326	(902,567)	-13%
Current portion of leases payable	0	77,291	(77,291)	-100%
Current portion of bond payable, Howard County	365,918	282,542	83,376	30%
Other payables	375,585	319,206	56,379	18%
Deposits	378,660	280,358	98,302	35%
Agency funds	642,463	578,221	64,242	11%
Deferred revenue	2,795,651	2,607,047	188,604	7%
Total current liabilities	<u>17,137,402</u>	<u>17,036,315</u>	<u>101,087</u>	1%
Non-Current Liabilities				
Leases payable, net of current	0	70,118	(70,118)	-100%
Bond payable, Howard County, net of current	9,247,620	9,771,824	(524,204)	-5%
Total non-current liabilities	<u>9,247,620</u>	<u>9,841,942</u>	<u>(594,322)</u>	-6%
Total Liabilities	<u>26,385,022</u>	<u>26,878,257</u>	<u>(493,235)</u>	-2%
NET ASSETS				
Invested in capital assets, net of related debt	136,583,636	132,688,053	3,895,583	3%
Restricted funds, expendable	754,314	652,942	101,372	16%
Unrestricted	20,489,445	18,827,736	1,661,709	9%
Total Net Assets	<u>\$ 157,827,395</u>	<u>\$ 152,168,731</u>	<u>\$ 5,658,664</u>	4%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

As of June 30, 2010, total net assets increased 4 percent, or \$5,658,664. Capital assets, net of debt, increased by \$3,895,583. The value of net capital assets rises when new assets are capitalized, but is reduced by any increases in accounts payable/debt associated with those assets. The college capitalized additional net assets less depreciation of \$3,662,667 and decreased accounts payable/debt associated with those assets by \$232,916. Unrestricted net assets increased 9 percent, or \$1,661,709, primarily due to the carry forward of funds that will be used to balance the FY11 budget. A detailed schedule of fund balances follows this section. In addition, restricted assets increased 16 percent as some grants received total funding in FY10 but span fiscal years. These funds will be expended in FY11.

The most significant change in the college's assets, which increased in total by 3 percent, was the 3 percent increase in non-current assets, which are capital assets net of depreciation. Capital assets include land, buildings, renovation costs, furniture, equipment, software, library books, leaseholds, and land improvements. Current construction in progress (CIP), valued on June 30, 2010, at \$1,900,927, is also included. CIP projects include the design work for two new projects which are the 750-space parking garage and the health sciences building.

Purchases, construction and renovation projects which provide usefulness over multiple years, less depreciation and retirements of assets increased by \$3,662,667. Major renovations to the Clark Library building and completion of the athletic fields were the primary additions. The breakdown by asset category can be found in footnote number 6 following the financial statements. The other significant change in assets was the \$1,077,477, or 4 percent increase in cash. Cash is being reserved to fund the revenue shortfall in the FY11 budget, mentioned above.

Those assets with significant percentage changes in the asset itself included government grant receivable up 54 percent, county capital receivable up 156 percent, other accounts receivable down 48 percent and prepaid expenses up 162 percent. The increase in the government grant receivables is due to the timing of the awarding of summer Pell grants and the subsequent draw down of those funds at the end of the year. The county capital receivable increase was the result of an increase in outstanding construction payables that are funded by and therefore due from the county. The decrease in other accounts receivable comes primarily from the auxiliary accounts. Belmont's outstanding accounts receivable and bookstore credit memo's are both lower at year-end. Prepaid expenses increased due to a new prepayment agreement with the college's security contractor, for which the college receives a small discount. The decline in the State of Maryland capital receivable of 12 percent will be discussed in the liability section below due to the relationship of the offsetting payable to Howard County which also declined.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

Total college liabilities declined 2 percent from the same period last year. The two significant decreases were in the bond and construction payables, both due to Howard County Government at year-end. The bonds, issued by the county for the college's share of the Horowitz Visual and Performing Arts Center and related parking facility, are being repaid with designated donations and student fees, as scheduled by the county. The debt repayment schedule is detailed in footnote number 7 following the financial statements. The construction payable, which decreased 13 percent primarily for the Clark Library renovation project which was completed this year, represents amounts payable to the county for capital projects that are primarily split funded between the county and the state. The state requires the local share to be paid upfront and then reimburses its share. Hence, the offsetting receivable from the State of Maryland for capital declined as well.

The current and non-current portion of leases payable declined 100 percent due to payoff of the Children's Learning Center lease at year-end.

Those liabilities with significant changes in the liability itself included an increase of 141 percent due to Prince Georges Community College, deposits which increased 35 percent and other payables which increased 18 percent. The payable due to Prince George's Community College (PGCC) is for cost sharing at the Laurel College Center. Each year-end, revenues and expenses at the center are split 50/50 between HCC and PGCC. PGCC pays for the staffing at the center that along with the building lease is the major expense. Last year the payable was lower because of lab renovations paid by HCC that increased its share of expenses. The increase in deposits held was for Belmont summer events and the increase in other payables was for amounts due to students for summer financial aid programs.

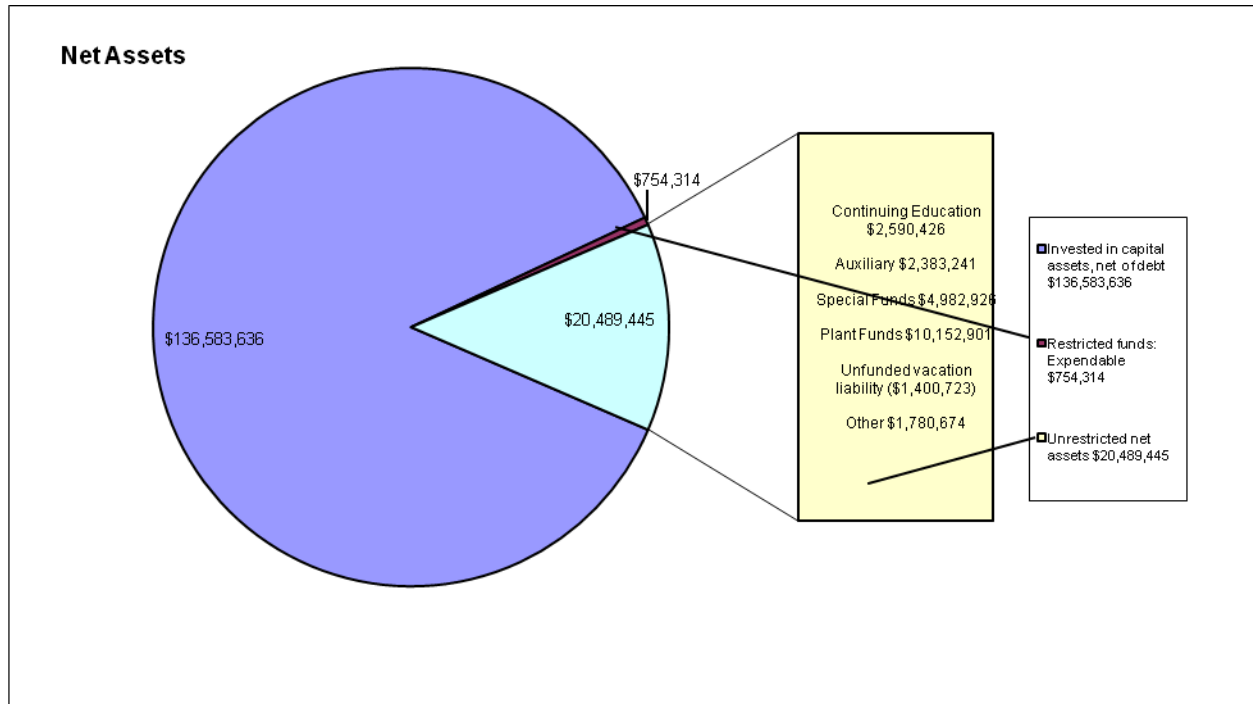
Unrestricted net assets are designated as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Variance</u>
Continuing education	\$ 2,590,426	\$ 2,240,900	\$ 349,526
Auxiliary enterprises	2,383,241	2,142,990	240,251
Special funds	4,982,926	4,474,704	508,222
Plant funds	10,152,901	10,557,191	(404,290)
Other	1,780,674	693,510	1,087,164
Unfunded vacation liability	(1,400,723)	(1,281,559)	(119,164)
Total unrestricted net assets	<u>\$ 20,489,445</u>	<u>\$ 18,827,736</u>	<u>\$ 1,661,709</u>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)



Continuing Education

The continuing education division of the college generated 9.7 percent of the college's unrestricted revenues, netting \$1,260,507 over direct expenses of the division. The division supported \$178,170 of indirect expenses within their budget, transferred \$221,830 to prefund expenses for the Mount Airy College Center project and funded \$510,981 of indirect expenses in the operating fund. This resulted in an overall increase in net assets of \$349,526. In this division, noncredit FTES totaled 1,872.9 and increased by .6 percent over FY09.

Auxiliary Services

Auxiliary services are primarily the college's bookstore, the food services contract, the Children's Learning Center (CLC), the art galleries, student athletic programs, and the Belmont Conference Center.

Bookstore sales revenue grew 9 percent over last year while expenses grew 10 percent. Sales are not growing in line with enrollment (12.6 percent) as more students are buying books online. The bookstore net profit for the year was \$262,352, which is 1 percent over last year. Profits were used to fund costs for the sunshine fund and college guest initiatives, leaving \$235,101 to increase designated unrestricted net assets of the auxiliary fund. The additional increase in the fund balance of the auxiliary fund is held in the art gallery to cover future security needs for special art events.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

Operating revenue of \$878,943 for the CLC was under budget by \$87,970 for the year. The shortfall was due to open infant slots held for students. The economic conditions caused volatility in the enrollment of children of students. Capacity was on average 90 percent during the year. Expenses were under budget \$50,334 for the year to offset the revenue shortfall. In an attempt to maintain the \$85,117 fund balance for the coming year, additional funding of \$37,636 was provided from the operating fund to cover the deficit. In addition, \$55,181 of funds were contributed by the operating budget to payoff the lease on the center, which was originally scheduled to be done in March of 2011.

The CLC received funding support from the instructional area (\$46,000), the student services area (\$282,058), the Howard Community College Educational Foundation (\$25,001), and the funding for the debt payoff mentioned above (\$55,181). With the exceptions noted above, this annual support was budgeted and is required since the CLC is not expected to operate strictly on fees paid for services. Its goal is to provide flexible day care for students, helping to remove a barrier to attend college, as well as provide a training ground for the college's students in the early childhood education program.

The Belmont Conference Center experienced a \$275,749 loss in fiscal 2010, which was covered by the college at year-end. The economic recession and the decision to sell the property, made by the board of trustees in August 2009, affected business at the center. Operating revenue, including tuition and fees for classes held at Belmont, totaled \$1,366,774, which decreased 17 percent from 2009. Operating expenses totaled \$1,642,523, which include repairs, and maintenance to the property of \$60,653. Efforts were made to reduce expenses; however, it only resulted in a 1 percent decrease in total expenses from the prior year. The administration will continue to look for ways to minimize future losses at the center until a buyer is identified and the sale of the property is complete.

Special Funds

Special funds are programs within the college that are primarily self-supporting. Some programs receive financial assistance from the operating budget. They include the Rep Stage, the Horowitz center, student arts, tutoring, Career Links, Project Access, the mediation center, core competencies, professional development, special projects and assignments, and the wellness program. In addition, funds were designated for potential start up costs for the Mount Airy College Center for Health Care Education that will be joint venture between Howard, Frederick, and Carroll Community Colleges. The center will offer allied health programs for students central to the three schools and supplement space in our crowded on campus programs. The increase in net assets is primarily due to forward funding of these programs. In addition, approximately \$536,331 was transferred to special funds to pay for year-end items that will be received and paid for in FY11.

Plant Funds

Plant funds include construction projects such as major renovations to the Clark Library building, the second parking garage design, and the design of the new health sciences building. Other smaller capital renovation projects also occur in this fund. The projects are funded with state, county and student fees. Debt on capital projects is also included in these funds. Some of the fund balance was used to complete renovations projects as planned in the budget.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

Other and unfunded vacation liability

For the year ended June 30, 2010, the college reserved \$1,780,674 to maintain a carry over fund balance in the operating fund needed to support a revenue shortfall in the FY11 budget. Savings was experienced through freezing positions, limiting travel, energy savings, reducing professional development, and closely monitoring spending. These steps were necessary in FY10 in order to balance the FY11 budget. This, however, is offset by the deficit funding for the vacation liability of \$1,400,723.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Operating Revenue				
Student tuition and fees \$32,357,128, (net of discounts, allowances and financial aid (\$7,414,639))	\$ 24,942,489	\$ 23,557,624	\$ 1,384,865	6%
Cultural, community and other programs	998,068	1,027,139	(29,071)	-3%
Auxiliary revenue, (net of financial aid \$948,017)	5,225,764	5,337,315	(111,551)	-2%
Other operating revenue	259,502	423,229	(163,727)	-39%
Total operating revenue	<u>31,425,823</u>	<u>30,345,307</u>	<u>1,080,516</u>	4%
Operating Expenses				
Instruction	35,417,803	34,295,228	1,122,575	3%
Public service	505,715	520,866	(15,151)	-3%
Academic support	4,099,917	4,971,475	(871,558)	-18%
Student services	6,748,717	6,320,068	428,649	7%
Operation and maintenance of plant	7,851,252	7,299,633	551,619	8%
Institutional support	11,132,043	10,630,431	501,612	5%
Scholarships and related expenses	2,106,112	908,721	1,197,391	132%
Auxiliary enterprises	7,426,364	6,679,908	746,456	11%
Certain fringe benefits paid directly by the state	2,738,918	2,383,145	355,773	15%
Certain fringe benefits paid directly by Howard County				
Government	375,851	123,198	252,653	205%
Unallocated depreciation	7,301,691	4,772,167	2,529,524	53%
Total operating expenses	<u>85,704,383</u>	<u>78,904,840</u>	<u>6,799,543</u>	9%
Operating loss	<u>(54,278,560)</u>	<u>(48,559,533)</u>	<u>(5,719,027)</u>	12%
Non-operating Revenue (Expenses)				
Howard County Government appropriations	25,195,470	25,195,470	0	0%
State of Maryland appropriations	12,629,815	12,526,355	103,460	1%
State grants and contracts	1,753,166	1,671,503	81,663	5%
Federal grants and contracts	8,553,995	5,177,559	3,376,436	65%
Local grants and contracts	120,000	118,155	1,845	2%
Other grants and contracts	909,793	1,417,956	(508,163)	-36%
Certain fringe benefits paid directly by the state	2,738,918	2,383,145	355,773	15%
Certain fringe benefits paid directly by Howard County				
Government	375,851	123,198	252,653	205%
Investment income	58,260	367,634	(309,374)	-84%
Interest on debt to Howard County	(475,685)	(337,578)	(138,107)	41%
Total Non-operating Revenue (Expenses)	<u>51,859,583</u>	<u>48,643,397</u>	<u>3,216,186</u>	7%
(Loss), Income before capital appropriations	(2,418,977)	83,864	(2,502,841)	-2984%
Capital appropriations from Howard County, State and other	<u>8,077,641</u>	<u>21,171,658</u>	<u>(13,094,017)</u>	-62%
Increase in net assets	5,658,664	21,255,522	(15,596,858)	-73%
Net assets, beginning of year	152,168,731	130,913,209	21,255,522	16%
Net Assets, End of Year	<u>\$ 157,827,395</u>	<u>\$ 152,168,731</u>	<u>\$ 5,658,664</u>	4%

HOWARD COMMUNITY COLLEGE

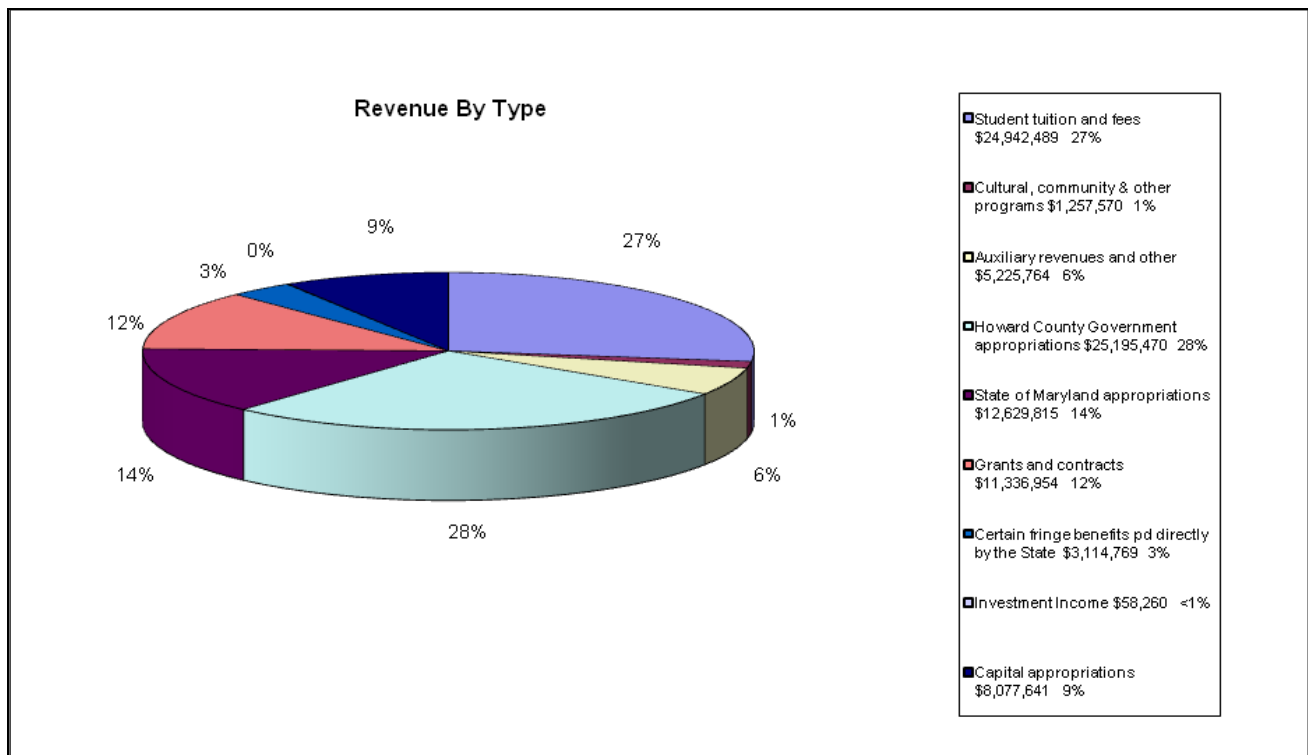
Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

Operating Revenue

For the year-ended June 30, 2010, total operating revenue increased 4 percent, or \$1,080,516. Net tuition and fees (gross tuition and fees, less tuition amounts paid by financial assistance) increased by 6 percent due to the college's credit enrollment growth of 12.6 percent and noncredit enrollment growth of .6 percent. Gross tuition and fees increased 12 percent while tuition amounts paid for by financial assistance increased 41 percent. This increase in financial assistance was primarily due to a 51 percent increase in Pell grant recipients and an increase in the maximum award of 13 percent. In addition, the college implemented direct lending for the summer 2010 term. This program replaced the Family Federal Education Loan (FFEL) Program. The Department of Education is now funding loans through the college as opposed to the FFEL, which was previously funded to students through private banks. The college has no financial liability for the loan repayments from students.

The 2 percent decrease or \$111,511 in auxiliary revenue is primarily down due to the decrease in Belmont Conference Center revenues mentioned previously under net asset changes. In addition, financial assistance paid for students who make purchases in the bookstore decreases bookstore revenue for financial statement purposes. This aid increased 50 percent over FY09. Other operating revenue, down 39 percent or \$163,727, reflects lower consulting revenue and administrative charges in the continuing education division.



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

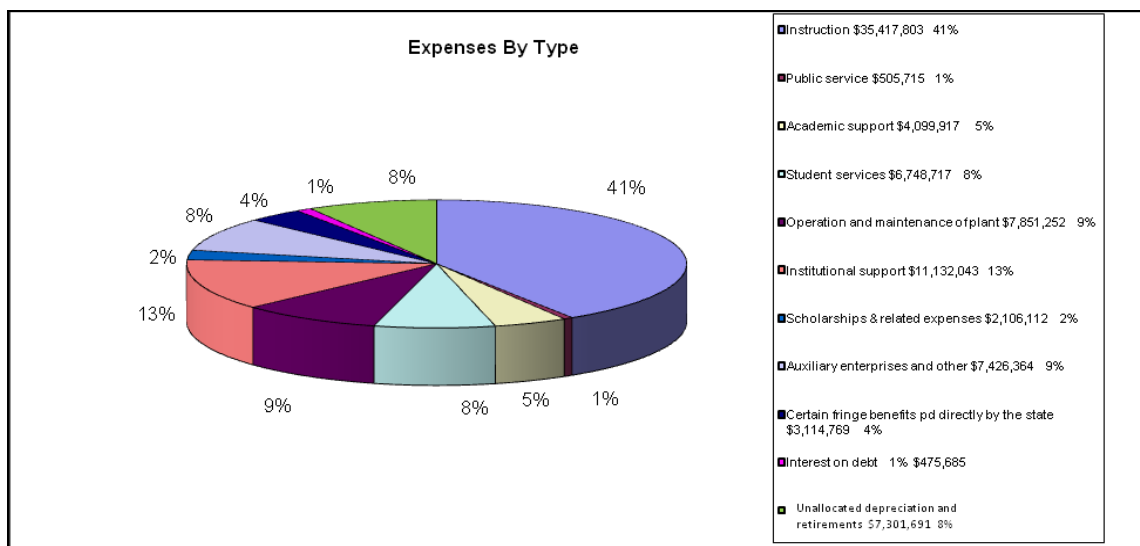
Financial Statement Highlights and Analyses (continued)

Operating Expenses

Total operating expenses increased 9 percent or \$6,779,543 over last year. This increase was not experienced in most of the functional expenditure categories of the budget, such as the percentage increase for instruction (3 percent), institutional support (5 percent), student services (7 percent), and a decrease in public service (3 percent). In addition to a restriction of travel and training, staff did not receive increases in fiscal 2010 and several positions were not hired, some as planned in the budget, but others due to concerns about possible state budget reductions. Only three (3) new full-time positions were added to the budget, one faculty and two instructional staff. Benefit costs rose approximately 6.6 percent in FY10.

The significant increase in expenditures was depreciation expense of 53 percent or \$2,529,524. The large increase was due to capitalization and depreciation of many major renovations projects completed in 2009, such as McCuan Hall, the Children's Learning Center, and Clark Library Hall. In addition, the Belmont Conference Center, purchased in 2009, had a full year of depreciation in 2010 as opposed to a partial year in 2009. Scholarships and related expenses increased 132 percent or \$1,197,391. Again this year, there was an increase in both the number of students receiving federal awards and the average amount of the awards, 51 percent and 13 percent, respectively. These expenses reflect only financial aid in excess of educational costs. These funds pass directly to students for their indirect costs (i.e., living expenses), which do not include tuition, fees, books, and child care expenses. This expense category includes only financial assistance paid directly to students.

Academic support expenses decreased 18 percent or \$871,558 from 2009 due to the large number of computer lab upgrades completed last year. Auxiliary expenses increased 11 percent over fiscal 2009. This is primarily due to the 10 percent increase in bookstore expenses and the addition of athletic programs that were included in the agency funds in previous years. Certain fringe benefits paid directly by the state and county increased 15 and 205 percent, respectively. This increased cost relates to employee retirement benefits and is partially based on estimated future retirement benefit payouts.



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

Non-operating Revenue

Non-operating revenue increased 7 percent, or \$3,216,186. State, local, and grant appropriations are classified as non-operating revenue because they are considered non-exchange transactions.

The 65 percent increase in federal grants and contracts reflects the increase in federal financial aid awards to students explained previously under expenses. Other grants and contracts decreased 36 percent primarily from the in-kind gift from the Howard Community Educational Foundation of \$426,036 for its interest in the Belmont Conference Center, which transferred to the college in fiscal 2009. Certain fringe benefits paid directly by the state and county increased 15 and 205 percent, respectively, and offset the expense mentioned above.

Investment income decreased by 84 percent due to the continuing decline in interest rates. The interest on debt to Howard County increased 41 percent, because of a full year interest paid on the 2009 bond issue.

Capital Appropriations

Capital appropriations from Howard County government, the State of Maryland, and other sources, decreased 62 percent. Funding decreased from the 2009 major renovations to McCuan Hall and the Clark Library building as well as the purchase of the Belmont Conference Center.

STATEMENTS OF CASH FLOWS

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (43,666,451)	\$ (41,688,686)	\$ (1,977,765)	5%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing activities	49,148,120	45,698,494	3,449,626	8%
Cash Flows From Capital Financing Activities				
Net cash used by capital financing activities	(4,462,452)	(3,786,010)	(676,442)	18%
Cash Flows From Investing Activities				
Interest on investment	<u>58,260</u>	<u>367,634</u>	<u>(309,374)</u>	-84%
Net increase in cash and cash equivalents	1,077,477	591,432	486,045	82%
Cash, beginning of the year	<u>25,124,946</u>	<u>24,533,514</u>	<u>591,432</u>	2%
Cash, End of Year	<u>\$ 26,202,423</u>	<u>\$ 25,124,946</u>	<u>\$ 1,077,477</u>	4%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Financial Statement Highlights and Analyses (continued)

The primary inflow of cash from operations continues to come from student tuition and fees. The primary outflows of cash from operations are supplier payments, employee compensation, and benefits costs. This netted to an overall 5 percent increase in cash used in operations.

State and local appropriations are the primary cash inflows from non-capital financing activities. Other funds come from grants and contracts. The net increase of 8 percent is primarily due to increased revenue in federal grants for financial assistance. Student loan receipts and disbursements offset each other, as all funds received on behalf of students are disbursed for their use. Lending increased over the prior year as costs to attend college continued to rise and the numbers of students borrowing increased. Agency funds are monies held by the college on behalf of students and constituent organizations, which increased from the prior year.

Capital financing activities include resources received from Howard County government and the State of Maryland for the college's capital projects, purchase of capital assets, and the repayment of debt. Capital appropriations, purchases of assets and issuance of new debt declined from 2009, but higher interest and debt payments caused an overall 18 percent increase in net cash used by capital financing.

The college's investing cash flows come from investment income decreased 84 percent. This decrease was due to the decline in interest rates due to economic factors.

In 2010, net cash increased by \$1,077,477, and the college's cash balance as of June 30, 2010, was \$26,202,423. The college believes that its liquidity position as of June 30, 2010, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2010. Also, as the college collects the majority of its tuition revenue at the beginning of each term and receives its grants and appropriations regularly, liquidity should not be an issue for the next fiscal year.

The college has committed approximately \$4,608,555 to complete current capital construction projects, which it plans to fund from future capital appropriations, donations, and allocated student tuition and fees.

Economic Factors that Will Affect the Future

The college's economic position is closely tied to that of the county and state with a little less than half of the college's appropriated revenue coming from these two sources. Since student tuition is the third source of the college's funding model, the percentage of support from the county and state is critical to keeping tuition affordable for students.

Although the long-term outlook for Howard County remains strong, the county, the state, and the nation have experienced one of the worst recessions ever faced. At the local level, revenues fell, state aid was reduced, and both expenditures and expectations had to be adjusted to reflect the new reality. It also is not clear how fast the nation will recover from this recession and what the new "normal" will look like. The pre-recession economy saw strong growth in Howard County in both the real estate

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2010

Economic Factors that Will Affect the Future (continued)

market and income taxes. This allowed the county to fund substantial budget increases and play a significant leadership role in the State of Maryland. However, the county is now experiencing the brunt of the recession. Local income tax revenue has declined and it is anticipated that we will be well into FY12 or FY13, before we see a rebound in this source of revenue. The decline in property tax assessments are projected to continue until at least FY12 and will affect property tax collections into FY15. Although property taxes will continue to grow by 3-4%, a year due to the homestead cap, the projected increase is more than offset by projected declines in income taxes and development based revenues. This means the county will have limited resources available to fund county needs in the coming years. Based on these projections, most county agencies received reductions in their budgets; however, due to maintenance of effort, the college received flat funding in FY11.

Long-term, Howard County has a strong and vibrant economy and was recently named by *Money* magazine as the second best place in the United States to live. With the BRAC development beginning along with the decision by the Federal Government to concentrate its cyber-security efforts in this region, the outlook is positive. This economic activity should translate into a return to long-term economic expansion and revenue growth for the county in the coming years.

At the state level, similar to FY09, the community colleges were asked to return funds in FY10. This reduction equated to five percent of their FY10 appropriation. This was the third consecutive year community colleges saw mid-year reductions from the state. In addition, due to the structural state deficit, the Governor was forced to introduce a budget for FY11 with considerably less funding than 2010. This funding is roughly equivalent to the FY08 appropriation level and factors into a 21.8% tie to the four-year institutions for FY11. The funding will remain at the same level for FY12 and then begin to increase in FY13 and each year thereafter until the 2010 statutory intent of the 29% funding of the four-year institutions is reached in FY21. The Cade formula was used to distribute the FY11 funding and due to Howard's growth, the reduced appropriation for Howard in FY11 is approximately, one-percent less (or \$120,215) than the final FY10 reduced funding. Even though the final legislation did not mandate transferring the pension/retirement cost to the local government and onto the colleges, this is something that the commission will study during the interim session. With the new realities of state and local funding, the college is continuing to be prudent in its spending practices and has continued to look for ways to reduce costs especially in our energy areas.

During the college's budget process, the first areas to be addressed continue to be indicators relating to the *percentage of expenditures on instruction* and the *percentage of expenditures on selected academic support*. Due to reductions in state funding and level funding by the county, HCC's tuition rate will be increased in FY11, two dollars per credit hour to a new level of \$116 per credit hour. This rate has not changed since FY08, even with mid-year reductions.

To help manage growth and its accompanying challenges, the college continues efforts to improve through self-assessment. In 2008, HCC was the first Maryland community college to receive Maryland's distinguished U.S. Senate Productivity Award, which is the highest award given to any Maryland business or organization. No other organization has received this honor since that time. In addition, in FY09, the college was the only community college in the state recognized by the *Chronicle of Higher Education* as one of the *Great Colleges to Work For*. We received honor role distinction with this recognition. In FY10, the college received the award for the second consecutive year.

HOWARD COMMUNITY COLLEGE

Statements of Net Assets As of June 30, 2010

	Howard Community College	Howard Community College Educational Foundation, Inc.
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 26,202,423	\$ 1,442,297
Investments and interest in irrevocable trust	-	5,240,991
Tuition and other receivable, net of allowance of \$1,266,159	261,682	-
Federal, state, local and other receivables	9,318,704	-
Contributions receivable, net of allowance of \$10,150	-	1,252,237
Inventory	710,862	-
Prepaid expenses and other assets	742,690	9,088
Total current assets	37,236,361	7,944,613
Non-current Assets		
Capital assets, net	146,976,056	-
Total Assets	184,212,417	7,944,613
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	4,273,514	43,408
Accrued compensated absences	2,015,104	-
Payable to PGCC - joint venture	376,748	-
Payable to Howard County for construction	5,913,759	-
Other payables	375,585	-
Bonds payable, Howard County, current portion	365,918	-
Deposits	378,660	-
Agency funds	642,463	-
Deferred revenue	2,795,651	51,300
Total current liabilities	17,137,402	94,708
Non-current Liabilities		
Bonds payable, Howard County, net of current portion	9,247,620	-
Total Liabilities	26,385,022	94,708
NET ASSETS		
Invested in capital assets, net of related debt	136,583,636	-
Restricted funds: Expendable	754,314	-
Unrestricted	20,489,445	918,746
Temporarily restricted	-	2,589,079
Permanently restricted	-	4,342,080
Total Net Assets	\$ 157,827,395	\$ 7,849,905

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

HOWARD COMMUNITY COLLEGE

Statements of Revenue, Expenses and Changes in Net Assets For the Year Ended June 30, 2010

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees, (net of discounts, allowances and financial aid (\$7,414,639)	\$ 24,942,489	\$ -
Cultural, community, and other programs	998,068	-
Auxiliary revenue,(net of financial aid of \$948,017)	5,225,764	-
Other	259,502	-
Contributions, including in-kind	-	2,056,364
Special events	-	343,215
Total Operating Revenue	31,425,823	2,399,579
Operating Expenses		
Instruction	35,417,803	-
Public service	505,715	-
Academic support	4,099,917	-
Student services	6,748,717	-
Operation and maintenance of plant	7,851,252	-
Institutional support	11,132,043	397,207
Scholarships and related expenses	2,106,112	-
Program expenses	-	1,073,838
Cost of direct benefits to donors	-	409,814
Fundraising	-	263,648
Auxiliary enterprises	7,426,364	-
Certain fringe benefits paid directly by the State and Howard County Government	3,114,769	-
Unallocated depreciation and loss on asset disposal	7,301,691	-
Total Operating Expenses	85,704,383	2,144,507
Operating (Loss) Income	(54,278,560)	255,072
Non-Operating Revenue (Expenses)		
Howard County government appropriations	25,195,470	-
State of Maryland appropriations	12,629,815	-
Federal, state, local and other grants and contracts	11,336,954	-
Certain fringe benefits paid directly by the State and Howard County Government	3,114,769	-
Investment income	58,260	67,907
Net realized and unrealized loss on investments	-	470,748
Interest expense	(475,685)	(43,937)
Net non-operating revenue (expenses)	51,859,583	494,718
Income (loss) before capital appropriations	(2,418,977)	749,790
Capital appropriations	8,077,641	-
Increase (decrease) in net assets	5,658,644	749,790
Net assets, beginning of year	152,168,731	7,100,115
Net Assets, End of Year	\$ 157,827,395	\$ 7,849,905

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows For the Year Ended June 30, 2010

	Howard Community College
Cash Flows From Operating Activities	
Tuition and fees	\$ 24,892,213
Payments to suppliers	(22,258,579)
Payments to employees	(43,959,140)
Payments for employee benefits	(8,824,279)
Auxiliary enterprises	5,225,764
Other receipts	1,257,570
Net Cash From Operating Activities	(43,666,451)
 Cash Flows From Non-Capital Financing Activities	
State appropriations	12,629,815
Local appropriations	25,195,470
Grant and contracts	11,258,594
Student loan receipts	4,684,337
Student loan disbursements	(4,684,337)
Agency funds receipts	685,270
Agency funds disbursements	(621,029)
Net Cash From Non-capital Financing Activities	49,148,120
 Cash Flows From Capital Financing Activities	
Capital appropriations	7,565,827
Bond proceeds	0
Purchase of capital assets	(10,964,358)
Interest expense payments	(475,685)
Principal payments on bonds, notes and capital leases	(588,237)
Net Cash From Capital Financing Activities	(4,462,452)
 Cash Flows From Investing Activities	
Interest on investments	58,260
 Net increase in cash and cash equivalent	1,077,477
Cash and cash equivalents, beginning of year	25,124,946
Cash and Cash Equivalents, End of Year	\$ 26,202,423

The accompanying notes are an integral part of this financial statement.

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows (continued) For the Year Ended June 30, 2010

	Howard Community College
Reconciliation of Net Operating Loss To Net Cash From Operating Activities	
Operating loss	\$ (54,278,560)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense and loss on asset disposal	7,301,691
In-kind contributions	78,360
Amounts paid directly by the state and county	3,114,769
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	(337,182)
Inventory	(19,862)
Prepaid and other assets	(458,994)
Accounts and other payables	625,558
Deferred revenue	188,604
Compensated absences	119,165
Net Cash From Operating Activities	\$ (43,666,451)

The accompanying notes are an integral part of this financial statement.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

1. ORGANIZATION AND BACKGROUND

Howard Community College (the college), founded by the Board of Education of Howard County, was formally authorized by the Howard County Commissioners to provide a full range of educational services to Howard County citizens; however, citizens of other counties and states are also eligible to attend. In 2010, 81.0 percent of the college's credit student populations are Howard County residents. The college is fully accredited by the Middle States Association of Colleges and Secondary Schools and by the Maryland Department of Education to offer programs of learning and to award associate degrees and certificates of proficiency.

A seven-member board of trustees, appointed by the Governor of Maryland, governs the college. The college president is a non-voting member and serves as the secretary-treasurer.

The college has been defined as a component unit of Howard County, Maryland government, and the college's financial statements are summarized in the county's general-purpose financial statements.

The Howard Community College Educational Foundation, Inc. (the foundation) is a separate legal entity with a separate board of directors. The foundation is a nonprofit organization established in 1978 to provide educational, scientific, and charitable benefits to the college and financial aid to qualified students attending the college. The college president holds the position of secretary and the college's director of development holds the position of executive director. The foundation operates independently of the college.

Since the foundation was established for the purpose of obtaining resources and to provide educational, scientific, and charitable benefits to the college, it is considered a component unit of the college. In accordance with Governmental Accounting Standards Board (GASB) no. 39, entitled *Determining Whether Certain Organizations are Component Units*, it is discretely presented in the college's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In June 1999, GASB approved GASB no. 34, entitled *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* followed by GASB no. 35, entitled *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

GASB statement no. 34 identified three types of special-purpose governments (SPGs): (1) those engaged only in governmental activities, (2) those engaged only in business-type activities, and (3) those engaged in both governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenue, and other non-exchange transactions.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Business-type activities, on the other hand, are financed in whole or part by fees charged to external parties for goods and services. Given the importance of tuition, fees, and other exchange-type transactions in financing higher education, the college adopted the financial reporting model required of SPGs engaged in business-type activities (BTAs). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. Accordingly, the accompanying college financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted governmental accounting standards.

The BTA model requires the following financial statement components:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenue, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

In accordance with GASB statement no. 20, entitled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and as amended by GASB statement no. 29, entitled *The Use of Not-for Profit Accounting and Financial Reporting Principles by Governmental Entities*, the college has elected not to implement FASB pronouncements issued after November 30, 1989.

The foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) accounting standards codification (ASC), including ASC 958, entitled *Non-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundation's financial information in the college's financial reporting entity for these differences.

Use of Estimates

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The college and the foundation consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. Funds invested through the Maryland Local Government Investment Pool (MLGIP) are also considered cash equivalents.

Investments

Investments of the foundation are comprised of debt and equity investments and are carried at fair value as of the date of the statement of financial position. Changes in fair value are recognized in the statement of activities and changes in net assets in the period in which the change occurs and are included in net realized and unrealized gains or losses on investments.

Tuition and Other Receivables

The college's tuition receivable represents obligations of students resulting from course registrations. The receivable is due before the end of the semester for which it was incurred. Amounts that remain uncollected three weeks after the end of the semester are considered delinquent and are referred to a collection agency. The college has established a valuation allowance for the tuition receivable it estimates as uncollectible. As of June 30, 2010, the net tuition receivable was \$261,682 and is deemed fully collectible by management. Included in other receivables are amounts collectible for the Belmont Conference Center, food services, bookstore credit memos, and other miscellaneous receivables.

Contributions Receivable

The foundation's contributions receivable represent unconditional promises to give from various contributors including individual, foundation, local business, and governments. There is a \$10,150 allowance for uncollectible accounts recorded as of June 30, 2010. Management believes that the balance of contributions receivable is fully collectible.

Contributions receivable are recorded at the donated amount or net present value for those contributions expected to be collected over one year. A discount rate of 2.0 percent was used as of June 30, 2010. The unamortized discount will be accreted into contribution revenue in the future.

Inventory

Inventory of the college is carried at the lower of cost or market using the first-in, first-out (FIFO) method.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets of the college are long-lived tangible assets, which will benefit future periods. Capital assets have been capitalized and are depreciated over their estimated useful lives. Capital assets are defined as land, land improvements, buildings, building renovations, leasehold improvements, furniture and equipment (including software), and library books that have initial useful lives extending beyond a single reporting period.

The college has established a threshold of \$5,000 for furniture and equipment in order for those capital assets to be capitalized. Library books are capitalized as one component unit for the purchases within the fiscal year.

Capital assets constructed or purchased are capitalized at cost, while assets acquired by gift are capitalized at their fair market value at the time of donation. The college depreciates all capital assets, except for land. Depreciation expense is not allocated on the financial statements. Cost incurred for construction in progress is capitalized as incurred and not depreciated until the assets are ready to be placed in service.

Depreciation is computed on a straight-line basis over estimated useful lives (as listed below), beginning the year after acquisition, except for buildings, which are depreciated in the first year of their use.

<u>Class of Assets</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Land improvements	25 years
Renovations and leasehold improvements	15 years (or lease term, if shorter)
Library books	8 years
Furniture and equipment	3 - 10 years

Accrued Compensated Absences

Accrued compensated absences of the college are accrued at the end of the year for financial statement purposes. Accrued compensated absences of \$2,015,104, as of June 30, 2010, are shown on the statements of net assets.

Agency Funds

Funds held by the college as custodian or fiscal agent for others, such as student organizations used to support various student activities not directly related to instructional activities, are accounted for as agency funds. The funds held for others are recorded as a liability on the statements of net assets and agency transactions are not included in the revenue and expenses of the college.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

Deferred revenue for the college is primarily comprised of tuition received for semesters beginning after June 30, 2010, and grant revenue received during the year that has restrictions on spending related to time or recognition has been deferred until those restrictions are met. The foundation collects advance receipts for fundraising events. Funds received for foundation fundraising events are recognized as special events revenue upon the occurrence of the event.

Net Assets

Net assets of the college are classified as restricted, unrestricted, or invested in capital assets, net of related debt. Restricted net assets are reported as either expendable or nonexpendable. Nonexpendable net assets are to be maintained in perpetuity. Expendable net assets, for which there are externally imposed constraints, are obligated or expensed within the condition(s) of the constraints.

The restricted net assets of \$754,314 represent grants given to the college for a specific use, designated by the grantor. The unrestricted balance of \$20,489,445 represents auxiliary enterprise funds of \$2,383,241, continuing education funds of \$2,590,426, cultural, community, theatre and other funds of \$6,763,600, and \$10,152,901 designated for construction and debt repayment, net of \$1,400,723 of unfunded vacation liability.

The investment in capital assets of \$136,583,636 is net of related debt that includes the bond debt to Howard County of \$9,613,538, and outstanding payables related to construction projects as of June 30, 2010, of \$778,882.

The foundation's net assets are expanded into three separate categories, unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets – Contributions not subject to donor-imposed stipulations, or whose restrictions have been satisfied, are recorded as unrestricted net assets.

Temporarily restricted net assets – Contributions subject to donor-imposed stipulations that will be met by the foundation through the passage of time or by conducting a service or by the incurrence of expenditures. As the restrictions on temporarily restricted net assets are met, they are transferred from temporarily restricted net assets to unrestricted net assets through the assets released from restriction due to satisfaction of donor restrictions in the accompanying statements of revenue, expenses and changes in net assets.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Permanently restricted net assets – Contributions subject to donor-imposed stipulations that must be maintained in perpetuity by the foundation are included in permanently restricted net assets. Generally, the donors of these assets permit the foundation to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Revenue Recognition

The financial statements of the college have been prepared on the accrual basis of accounting, whereby all revenue is recorded when earned and all expenses are recorded when they have been incurred. These financial statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution. Internal activity between programs has been eliminated.

The college's tuition and fee revenue is shown net of scholarship allowances. A scholarship allowance is defined as the difference between the stated charge for tuition, fees, goods, and services provided by the college and the amount that is paid by the student and/or third-parties making payments on behalf of the student. The scholarship allowance represents the amount the college receives as tuition from outside resources such as the Title IV Federal Grant Program, the foundation, other restricted grants, and the college's own scholarship program. Funds received on behalf of students from outside sources such as third-party payers are reported in the appropriate revenue classification.

Certain aid such as loans and third-party payments are credited to the student's account as if the student made the payment. For the year ended June 30, 2010, the college netted expenses in the amount of \$8,362,656, reducing tuition revenue by \$7,414,639, and bookstore scholarships, and childcare tuition, in auxiliary enterprise revenue by \$948,017.

Auxiliary Enterprises, Continuing Education, and Cultural, Community and Other Programs

Auxiliary enterprises operated by the college include the bookstore, food service, Children's Learning Center, art galleries, student athletic programs, vending services, and the Belmont Conference Center. Continuing education programs primarily represent noncredit courses offered by the college for a fee. Cultural, community, and other programs are primarily events of Rep Stage, the Laurel College Center, summer instructional and sports camps, youth music program, the international programs, various student services programs, and athletic activities sponsored by the college for the community. In addition, start up programs, such as the entrepreneurial program and the **eBay®** business account for students, are included. Net assets for these programs are part of the unrestricted net assets balance.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Components

The college has elected to report its operating expenses by functional classification, with the exception of depreciation, which is presented as a distinct expense and labeled unallocated and certain fringe benefits paid directly by the state. The statement of cash flows is presented as required using the direct method that depicts cash flows from operating activities and a reconciliation of operating loss and operating cash flows.

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, non-capital financing, or investing activities. The college's principle ongoing operations determine operating activities. Ongoing operations of the college include, but are not limited to, providing intellectual, cultural, and social services through two-year associate degree programs, continuing education programs, and continuous learning programs. Operating revenue of the college consists of tuition and fees; cultural, community, and other programs; auxiliary enterprise revenue; and other operating revenue.

Non-operating components include transactions and other events that are defined as noncapital financing activities, capital financing activities, and investing activities.

Non-capital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest.

Non-operating activities include certain intergovernmental receipts and payments such as state and local appropriations, grants, payments paid on behalf of the college, investment earnings, and interest on debt. The college has also identified student financial aid assistance, including Pell grants and Supplemental Educational Opportunity Grants, as non-operating revenue as the college does not consider them to be exchange transactions. Capital financing activities include acquiring and disposing of capital assets used in providing services or producing goods, borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest and paying for capital assets obtained from vendors on credit. Investing activities include acquiring and disposing of debt or equity instruments and the related investment earnings.

In-Kind Contributions

The foundation receives contributions of various services from non-related sources. These contributions and their related expenses are reported at fair value in the period the services are performed. The estimated fair value of these contributions for the year ended June 30, 2010, was \$261,174. Additionally, the foundation receives in-kind support from the college consisting of personnel, legal, consulting and office costs. The estimated value of these services for the year ended June 30, 2010 was \$598,415.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

Advertising expense of the foundation (including in-kind contributions) for the year ended June 30, 2010, was \$123,228.

Fundraising and Management Expenses

Fundraising expenses of the foundation consist of donor support expenses and fundraising event-related insurance policies. Management expenses consist of office expenses, accounting and legal fees.

Federal and State Income Tax Status

The college is exempt from federal and state income taxes as it is essentially a political subdivision of the state. The foundation is exempt from taxation under the provisions of Internal Revenue Code Section 501(c) (3). Accordingly, no income tax expense has been provided in the accompanying financial statements.

New Accounting Pronouncements

During the year ended June 30, 2010, GASB issued statement no. 57, entitled *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*; statement no. 58, entitled *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, and statement no. 59, entitled *Financial Instruments Omnibus*. The college is analyzing the effects of these pronouncements and plans to adopt or has adopted them as applicable by their effective dates.

3. CASH AND CASH EQUIVALENTS

A. Cash on Hand

As of year-end, petty cash on hand and change funds totaled \$13,585.

B. Deposits

As of year-end, the carrying amount of the college's deposits was \$794,915 and the bank balance was \$2,250,323. The deposits of the college were not exposed to custodial credit risk as of June 30, 2010. The operating account is federally insured up to \$250,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$250,000 are collateralized by a surety bond with a market value of \$10,000,000 as of June 30, 2010. The bond is held by the bank's agent in the college's name.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

3. CASH AND CASH EQUIVALENTS (continued)

C. Investments

The college's allowable investments are determined by Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the college's investment policy. The college may invest in certificates of deposit with commercial banks in the State of Maryland, direct U.S. obligations, U.S. government agency obligations, repurchase agreements, banker's acceptances from approved banks with acceptable credit ratings, commercial paper from entities with an acceptable credit rating, money market funds, and the Maryland Local Government Investment Pool (MLGIP).

As of June 30, 2010, the college's investment balance consisted of \$25,393,923 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 13,585
Carrying amount of deposits	794,915
Carrying amount of MLGIP	25,393,923
Total cash and cash equivalents	\$ 26,202,423

Investment rate risk

Fair value fluctuates with interest rates and increasing interest rates could cause fair value to decline below original cost. To limit the college's exposure to fair value losses arising from increasing interest rates, the college's investment policy limits the term of investment maturities. As of June 30, 2010, the college's investments were limited to the MLGIP. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the college from having to sell investments below original cost for that purpose. The investments, as of June 30, 2010, met the college's investment policy as of that date.

Investment income includes interest and dividends in the amount of \$58,260 for the year ended June 30, 2010.

Credit Risk

The college invests in the Maryland Local Government Investment Pool (MLGIP), which is under the administration of the state treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standards & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, market to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

3. CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the college will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The college's investments were all invested in the MLGIP and are not exposed to custodial credit risk.

Foreign Currency Risk

The college's investment policy does not allow for investments denominated in foreign currencies. The college did not have any investments denominated in any foreign currency as of June 30, 2010.

4. INVESTMENTS OF THE FOUNDATION

The foundation's investments as of June 30, 2010, are summarized as follows:

	2010		
	Cost	Market	Unrealized Gain (Loss)
Certificates of Deposit	\$ 124,728	\$ 124,728	\$ -
Mutual funds	867,569	852,136	(15,433)
Interest in external investment pool	4,224,217	4,176,858	(47,359)
Interest in irrevocable trust	87,269	87,269	-
Total	\$ 5,303,783	\$ 5,240,991	\$ (62,792)

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2010, are recorded as follows:

Due in:	Amounts
Less than one year	\$ 926,248
One to seven years	363,523
	1,289,771
Less: discount	27,384
allowance for uncollectible accounts	10,150
Total	\$ 1,252,237

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

6. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for year ended June 30, 2010:

	<u>June 30, 2009</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Land	\$ 2,078,705	\$	\$	\$ 2,078,705
Land improvements	1,944,803			1,944,803
Buildings	113,381,795	292,498		113,674,293
Building renovations	48,903,154	9,971,318	96,445	58,778,027
Furniture and equipment	10,757,354	1,372,359	509,947	11,619,766
Library books	1,950,171	45,211		1,995,382
Leasehold improvements	1,954,084			1,954,084
Total	<u>180,970,066</u>	<u>11,681,386</u>	<u>606,392</u>	<u>192,045,060</u>
Less: accumulated depreciation	40,773,290	6,796,361	599,720	46,969,931
Assets, net of depreciation	140,196,776	4,885,025	6,672	145,075,129
Construction in progress	3,116,613	(717,028)	498,658	1,900,927
Total	<u>\$ 143,313,389</u>	<u>\$ 4,167,997</u>	<u>\$ 505,330</u>	<u>\$ 146,976,056</u>

7. BOND LIABILITY TO HOWARD COUNTY AND NOTE PAYABLE

The college is indebted to the county for bond issues in the amount of \$9,613,538 as of June 30, 2010, for construction costs of a parking deck and the college's portion of the Horowitz Visual and Performing Arts Center. Payments began in 2008 and are due through 2029 at interest rates ranging from 2.0 percent to 5.0 percent. The debt and interest payments in the future are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 365,918	\$ 450,912
2012	381,416	436,426
2013	396,187	421,957
2014	412,220	405,947
2015	531,213	382,793
Thereafter	7,526,584	2,529,851
Total	<u>\$ 9,613,538</u>	<u>\$ 4,627,886</u>

Changes in the college's long-term liabilities for the year ended June 30, 2010, are as follows:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Amounts Due in One Year</u>
Lease payable	\$ 13,097	\$	\$ 13,097	\$ 0	\$ 0
Lease payable	134,312		134,312	0	0
Bond payable	37,400		37,400	0	0
Bond payable	10,016,966		403,428	9,613,538	365,918
	<u>\$ 10,201,775</u>	<u>\$</u>	<u>\$ 588,237</u>	<u>\$ 9,613,538</u>	<u>\$ 365,918</u>

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

8. RESTRICTED NET ASSETS

Temporarily restricted net assets of the foundation of \$2,589,079 as of June 30, 2010, consist of funds restricted for scholarship purposes and other specified programs. Net assets released from restrictions were funds restricted for scholarship purposes and other specified programs whose restrictions were satisfied. Permanently restricted net assets of \$4,342,080 as of June 30, 2010, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships.

Endowment net assets totaled \$4,924,441 at June 30, 2010. The composition of these assets is \$4,342,080 of permanently restricted, \$560,758 of temporarily restricted, and \$21,603 of unrestricted net assets. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in temporarily restricted net assets were \$91,775 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board.

9. RETIREMENT BENEFITS

All budgeted full-time and budgeted part-time college employees participate in either the Maryland State Retirement and Pension Systems or an Optimal Retirement Program (ORP), primarily the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). The college's total current-year payroll for all employees was \$44,681,459. The payroll of employees covered by either the Maryland State Retirement and Pension Systems or an ORP, was \$32,366,125.

The Maryland State Retirement and Pension Systems are cost-sharing multiple employer Public Employees Retirement Systems (PERS) established and administered in accordance with Article 73B of the Annotated Code of Maryland. Annually, the State Retirement Agency publishes a publicly available financial report that includes financial statements and required supplementary information for the PERS. That report may be obtained by writing to PERS at the State Retirement Agency, 301 West Preston Street, Baltimore, Maryland, 21201-2363.

Employee benefits and contributions differ based on the employees' participation in either the retirement system (Teachers' Retirement System or Employees' Retirement System) or the pension system (Teachers' Pension System or Employees' Pension System). All new employees must join the pension system or an ORP. Employees who were members of the retirement system on December 31, 1979, can continue membership unless they elect to join the pension system or an ORP.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

9. RETIREMENT BENEFITS (continued)

All employees have vested benefits after five years of creditable service. Retirement benefits under both the retirement and pension systems are based on years of service. Under the pension system, benefits are integrated with Social Security benefits and there is a 3 percent limit on the cost-of-living adjustment. The retirement system has no integration level.

The pension system requires individuals to contribute 5 percent of their annual salary. Employees, who are members of the retirement system can, if elected by July 1984, contribute 7 percent of their annual compensation and receive an unlimited cost-of-living adjustment. Other employees can elect to remain members of the retirement system and contribute 5 percent of their annual compensation; however, their retirement benefits are subject to a 5 percent limit on their annual cost-of-living adjustment.

The contributions for the fiscal years ending June 30, to the system, exclusive of contributions made directly by the State of Maryland, were as follows:

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 412,097	100%	-
2009	409,754	100%	-
2010	448,494	100%	-

TIAA is a nonprofit insurance company that provides annuities and insurance for staff members of educational organizations; CREF is a nonprofit corporation established to provide retirement benefits. The TIAA/CREF program is a money purchase plan under which the benefit is determined by the retirement income purchased by state and employee contributions. The state contribution rate is determined by state law and is currently 7.25 percent of salary. No employee contribution is required. Participants in TIAA/CREF may begin to receive their annuity income at any time after leaving the college; however, there is a penalty for those under retirement age.

The State of Maryland pays, on behalf of the college, the employer's share of retirement costs for teachers and related positions. During the fiscal year ended June 30, 2010, the state paid \$2,738,918 in retirement costs, equal to approximately 8.5 percent of the covered payroll costs. The college's share of retirement costs for other employees was calculated based on the accrued benefit cost method.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

10. RISK MANAGEMENT

The college is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Other than automobile coverage, the college is insured by the Howard County self-insurance programs, which provide coverage up to a maximum of \$1,000,000 for each general liability claim, \$100,000 for each property claim, and \$500,000 on each workers' compensation claim. The college has a separate policy with the Local Government Insurance Trust (LGIT), a public entity risk pool that consists of various local counties and municipalities, for automobile coverage up to a maximum of \$1,000,000 for each automobile claim.

Under the umbrella of Howard County, the college has additional coverage from LGIT for liability and property claims in excess of the coverage's described above. The county pays annual premiums to LGIT for liability coverage's. LGIT was created to provide broader insurance than that available from commercial insurers, coverage's that otherwise would be unavailable, and loss control and risk management services for local governments. The college is covered for workers' compensation claims in excess of the \$500,000 per claim as previously described under an additional policy purchased by the county. Settled claims have not exceeded coverage in any of the past five years.

The college makes payments to the county based on the premiums established by the county based on a combination of actuarial estimates and historical cost information. The college has no liability for covered claims other than paying the premium established by the county. The amount paid and expensed during the year ended June 30, 2010, was \$35,400.

The college has also entered into an agreement with Howard County to provide health care coverage for its employees under the county's self-insured plan. The college has the option to terminate the agreement at the end of each fiscal year. The college has no liability for covered claims other than paying the premiums established by the county which were \$5,145,330 for the year ended June 30, 2010.

11. RELATED PARTY TRANSACTIONS

As discussed, the foundation has been determined to be a component unit of the college, after analyzing the requirements of GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, and its financial activity is presented discretely in the college's financial statements.

For the year ended June 30, 2010, the college provided \$598,415 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$389,038 in scholarships awarded to students and \$684,800 in non-scholarship benefits to the college in support of college programs and other services. This figure includes in-kind contributions.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

11. RELATED PARTY TRANSACTIONS (continued)

The college entered into a ground lease of approximately one acre of land to the foundation in order for the foundation to construct a college-operated childcare facility. The annual payment was \$1. The college paid the foundation \$140,774 in lease payments for the use of the childcare facility for the fiscal year ended June 30, 2010. The foundation uses these payments to pay the debt service on the loan for the childcare facility. The loan was paid in full in June of 2010 and therefore the foundation will transfer the property to the college and terminate the ground lease agreement in FY11.

The college paid \$5,211 of legal fees on behalf of the foundation.

For fiscal 2008, Howard County Government appropriated \$2,200,000 in funds for the acquisition of the Belmont Conference Center from the Howard Community College Educational Foundation, Inc. (HCCEF) and \$2,820,000 for renovations to the property. The purchase of the property from the HCCEF occurred on November 18, 2008.

In August of 2009, the board of trustees made the decision to sell the property. As a condition of funding the acquisition, the documents that acquired the property from the HCCEF included a provision if the college ever decided to sell the property. That clause provided Howard County Government a right of first refusal to purchase the property at fair market value, less expenditures made by the County through project M-0537, subject to the discretion of the County Executive. Through June 30, 2010, the county has spent \$2,610,812 on Capital Project M-0537 which includes the acquisition costs. In addition, the college had used excess operating tuition and fees of \$1,731,900 from 2008 to purchase the property. Upon the sale of the property, (or within the next ten years), the college will return the \$1,731,900 to the college's operating budget.

12. JOINT VENTURE

The college entered into a joint-venture agreement with Prince George's Community College (PGCC) to form the Laurel College Center (LCC). The LCC offers both credit and noncredit courses. The college and PGCC split both the revenue and expenses associated with the LCC equally. For the year ended June 30, 2010, the college included \$32,641 and \$409,389 in revenue and instructional operating expenses, respectively, in the statement of revenue, expenses, and changes in net assets.

As part of the joint venture agreement, the college and PGCC entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease has an initial term of five years with the option to renew the lease for an additional five years in one-year increments. The lease payments have an escalation clause of 3 percent per year and the college has recognized its proportionate share of the rent expense in accordance with the terms of the lease agreement. The college's proportionate share of the rent expense for the year ended June 30, 2010, was \$351,108.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2010

12. JOINT VENTURE (continued)

The college's proportionate share of the future minimum lease payments under the terms of this lease are as follows:

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 361,641
2012	60,568
Total	<u>\$ 422,209</u>

13. COMMITMENTS AND CONTINGENCIES

Contingencies

In the normal course of business, the college becomes involved in legal actions. There are no legal actions pending at the current time.

Capital Projects

As of June 30, 2010, the college has commitments of approximately \$4,608,555 to complete outstanding capital construction projects.

Grants

Most grants and cost-reimbursable contracts of the college and foundation specify the types of expenses for which the grant or contract funds may be used. The expenses made by the college under some of these grants and contracts are subject to audit. To date, the college has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

14. POST RETIREMENT BENEFITS

The college contributes to the Howard County Other Postemployment Benefits Trust, a cost-sharing multiple-employer defined benefit healthcare plan (the plan). The county established an irrevocable trust for administering the plan assets and paying healthcare costs on behalf of the participants. Howard County provides postemployment health insurance benefits to all eligible employees who retire from the county or its component units who wish to participate. In order to be eligible, the retiree must have a minimum of ten years of service, and immediately preceding retirement, been enrolled in a medical, vision or prescription drug insurance plan offered to active employees of the county or its components. The county will pay a percentage of the retiree's health insurance premium based upon these criteria. This percentage varies with the number of

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2010

14. POST RETIREMENT BENEFITS (continued)

years of service attained by the employee. Other retirees who do not meet the eligibility criteria must have five years of service to participate in the retirees' health insurance program by paying the full premium at the group rate. For the year ending June 30, 2010, the county paid claims in excess of premiums of \$375,851 on behalf of the college.

The plan's funding policy provides for the county and its component units to contribute to the trust the actuarially determined annual required contribution (ARC). The college is a cost sharing agent participant to the plan and thus is only responsible for its required annual contribution established by the county. When a contribution is made, the county will make the college's ARC contribution. However, there were no county contributions to the plan in FY10.