

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, 2011



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2011

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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, 2011, which collectively comprise the college's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express 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, 2011, 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 29, 2011, 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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Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Hunt Valley, Maryland
September 29, 2011

SB & Company, LLC

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

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 FY11. 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, 2011, 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, 2011**

College Planning and Strategic Goals (continued)

The strategic goals implemented for a five-year period, 2010 – 2015, with 2010 being the base year, are listed in the chart below. Each year during the budget process, funds are allocated to achieve these initiatives. Below is the final report showing the action plans in place for FY11 and the fiscal year accomplishments related to these action plans, which impacted the college’s financial operations.

Strategic Goal #1. Student Success and Lifelong Learning			
1.1	<i>Increase % of developmental completers, 4 years after entry to HCC, from 35.8% (fall 2003 cohort) to 40% (fall 2006 cohort).</i>		
	Lead	Action Plans for 2009-2011	Results by April 2011
1.1A	VPSS VPAA	Implement College Readiness Program by testing 11 th grade English “regular” students enrolled at all (12) HCPSS high schools and assisting students who fall short of being college ready.	<p style="color: blue; text-align: center;">Accomplished and ongoing</p> <p>The first cohort (2008 - 2009 of the 12 high schools) was studied. 38.8% of the high school students that were tested eventually enrolled at Howard Community College; this is higher than the usual draw rate of 24% of the annual graduating class. Those students also attained higher placement levels.</p>
1.1B	VPAA	Investigate best practice peers and formulate a plan to increase number of developmental completers.	<p style="color: blue; text-align: center;">Accomplished and ongoing</p> <p>Students in the experimental English - 121 Accelerated Learning Program passed at rates of 75% and 70% in both classes, respectively; an improvement over the Fall semester, where students passed at rates of 67% and 64%. For MATH - 061, ModuMath lessons are now delivered via an internet version rather than the in-class desktop version so students can work anytime, anywhere. Additional mini-lessons were developed to pilot this fall. Students will choose whether to participate in the mini-lesson on one side of the lab or work on their program on the other side of the lab. This is modeled on a program being used at University of Baltimore. Students in MATH-061 and MATH-067 can now continuously access their grades online. Success rates and success in subsequent courses will be studied.</p>

HOWARD COMMUNITY COLLEGE

**Management’s Discussion and Analysis
June 30, 2011**

College Planning and Strategic Goals (continued)

1.2				<i>Increase student successful-persistence rate after 4 years for all students from 73.2% (fall 2003 cohort) to 80% (fall 2006 cohort).</i>
1.2A	VPSS	Study impact of new academic standing policy.	<p>Accomplished and ongoing</p> <p>To date, the results are positive. From fall 2009 to spring 2010, there was a +0.28 mean cum GPA change for students placed on academic warning who met with an advisor compared to a +0.09 mean cum GPA change for students placed on academic warning who did not meet with an advisor.</p>	
1.2B	VPSS	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	<p>Accomplished and ongoing</p> <p>System (Starfish) was chosen and purchased. During summer 2011, designated offices will work with Starfish personnel to program software package to meet the college’s needs and upload critical Datatel information into Starfish.</p>	
1.2C	VPAA	Develop outcomes for First Year Experience (FYE) courses and select metrics to track improved student learning.	<p>Accomplished and ongoing</p> <p>The FYE Course Objectives (Learning Outcomes) were identified. Possible metrics are under discussion. The eventual study must define a methodology by which students’ degree of mastery of these outcomes can be measured in meaningful and statistically significant ways.</p>	
1.3				<i>Increase student graduation and transfer rate after 4 years for all students from 51.9% (fall 2003 cohort) to 60% (fall 2006 cohort).</i>
1.3A	VPAA	Identify gateway courses and pilot interventions to improve student success utilizing best practices from the <i>Achieve the Dream</i> project and others.	<p>Accomplished and ongoing</p> <ul style="list-style-type: none"> • Identified four gateway courses in the business and computer systems division and the success rates are being tracked as course enhancements are deployed. • A college completion plan (VPSS/VPAA) is under development. 	
1.3B	VPAA	Revamp the general education core and track impact on degree completion.	<p>Accomplished and ongoing</p> <p>Revamping the general education core is complete and will now track the impact on degree completion.</p>	

HOWARD COMMUNITY COLLEGE

Management’s Discussion and Analysis
June 30, 2011

College Planning and Strategic Goals (continued)

Strategic Goal #2. Organizational Excellence			
2.1	<i>Increase % of minority employees to reflect county demographics from fall 2007 rates of 22.1% faculty and 20.9% staff to 23% for both.</i>		
	Lead	Action Plans for 2009–2011	Results
2.1A	VPAF	Improve faculty and staff recruitment efforts and outcomes.	Accomplished for staff (24.4%) and ongoing for faculty (20%). Summer faculty and staff searches may yield improved results.
2.2	<i>Increase stakeholder satisfaction for students from spring 2008 rates of: 37.5% credit students; to spring 2014, rate of 43% and for employees from fall 2007 rate of 4.29 to fall 2012 rate of 4.35. (Note: for the FY 2013 version of the plan, the following was added: Continuing Education students will report 95% satisfaction. Make progress toward achieving a 50/50 FT/PT faculty ratio and appropriate (based on strategic plan requirements) staff ratio.)</i>		
2.2A	ALL	Examine workload, redistribute responsibilities, and create efficiencies to ensure continued quality service to students and one another given projected stationary staffing levels.	Accomplished and ongoing Current rates at 40.0% (credit students) and 4.28 (employees). Six process improvements were pursued to increase efficiency. I Finance Office: Budget Development Tool Enhancement II Finance Office: Convert to Electronic Payment of Wages III Finance Office: Convert All Federal and Non-Federal Student Refunds to an Electronic Process IV Human Resources: Creating Efficiencies V Security: Creating Efficiencies VI Automation of Financial Aid Student Purchasing Procedure
2.3	<i>Increase development/training expenditure per FTE employee from \$828 in FY 2007 to \$900. (Note: for the FY 2013 version of the plan, the statement was edited to: Increase development/training expenditure per FTE employee to stay in top quartile.)</i>		
2.3A	VPAF	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.	Accomplished and ongoing Data is obtained from the National Community College Benchmarking Project (NCCBP) in the fall of each year. In fall 2010, HCC ranked in the 81 st percentile of all participants with \$554 spent on training per employee.

HOWARD COMMUNITY COLLEGE

**Management’s Discussion and Analysis
June 30, 2011**

College Planning and Strategic Goals (continued)

2.4	<i>Reduce HCC's carbon footprint from 3.7 MMBTUs*/FTE (fall 2007) to 3.1 MMBTUs*/FTE (fall 2012). (*metric tons of carbon dioxide emissions)</i>		
2.4A	VPAF	The Facilities and Sustainability Team (FAST) will define and implement metrics for sustainability.	Accomplished and ongoing Vital Signs were developed. Current number is 3.4 MMBTUs*/FTE.

Strategic Goal #3. Building Partnerships			
3.1	<i>Increase resources provided to provide scholarships and facilities to students.</i>		
	Lead	Action Plans for 2009–2011	Results
3.1A	VPIT	Continue a \$4,000,000 capital campaign. Raise \$1,300,000 by the end of FY2011 for scholarships, endowments, and capital projects.	Not Accomplished and ongoing Attained 80% of FY11 goal by raising \$1,044,687 of the \$1,300,000. Reached 81% of the overall campaign goal by raising \$3,259,557 toward the \$4 million.
3.1B	VPIT	Increase the competitive grant income from \$2,500,000 in FY2011 to \$3,000,000 by the end of FY2015.	Accomplished and ongoing Raised \$2,896,096 in competitive grants.
3.2	<i>Increase opportunities to serve the regional needs.</i>		
3.2A	VPSS	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.	Accomplished and ongoing The cohort increased 13% from 2,384 in fall 2010 to 2,729 in fall 2011.
3.2B	ALL	Implement the Southeast Healthcare Initiative Project.	Accomplished The Southeast Healthcare Initiative has been completed.
3.2C	VPSS	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.	Ongoing For fall 2010, percent was 24.4%. Final data for the 2011 graduating class will become available after the Fall census.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

College Planning and Strategic Goals (continued)

In addition to these strategic goals, core work goals which impacted spending in fiscal 2011, are listed below by area:

President's Areas

- Published the first ever HCC magazine, *Pathways*, focusing on careers in science, technology, engineering, and math;
- Continued to support and administer the college's \$4 million campaign for student scholarships and endowments. At the close of FY11, the \$3,259,557 mark was reached, which is 81% of goal;
- Provided \$970,310 in overall support for scholarships and programs from the foundation to the college;
- Committed \$486,288 to students in FY11 working with the financial aid services office; last year's commitment was \$381,070;
- Generated \$2,896,096 in competitive grants, reflecting a 111% of the foundation's \$2.6 million goal. An additional \$10,816,335 in non-competitive grant awards was received;
- Received \$228,903 from in-kind donations; and
- Commemorated HCC's 40th anniversary by planning and organizing a 40th birthday celebration, community open house, President's Gala, and picnic.

Academic Affairs

- Completed program planning and design of new health sciences building;
- Developed a scheduling strategy to increase classroom utilization;
- Collaborated with Carroll Community College and Frederick Community College to complete program planning and design of Mt. Airy College Center for Healthcare Education (MACCHE);
- Began construction of the new baking kitchen began in May with a projected completion date of August of 2011;
- Received 2011 Startalk grant and implemented four critical languages;
- Collaborated with internal partners to plan and implement a cyber security focus group with community and business leaders;
- Developed a master plan for eLearning around the college's choice of a new learning management system;
- Increased the number of hybrid courses offered from 33 to 44;
- Implemented new Windows Media server to replace RealMedia server in the library;
- Implemented the summer study abroad program in Denmark, 2011, in addition to the WWII, France-Culture, Denmark-Culture and Turkey-Culture;
- Explored and developed a new Spanish language and culture study abroad program as a replacement for student programs in Mexico;
- Completed the Southeast Healthcare Initiative;
- Implemented the classroom of the Future/Learning Studio Project; and
- Piloted the Accelerated Learning Program for developmental writing students.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

College Planning and Strategic Goals (continued)

Administration and Finance

- Established a textbook rental program for students;
- Opened the satellite café Simply To Go, located in the science and technology (ST) building;
- Selected new life/long term disability /accidental death and dismemberment carrier for employees saving \$126,861 over a four-year period;
- Began the construction of the health sciences building;
- Completed the construction of the second parking garage;
- Completed the paving of parking lot F and Phase 4 of the athletic field's project;
- Participated in Baltimore Gas and Electric (BGE) smart energy rebate program and the demand curtailment program resulting in a cost savings of \$37,500;
- Expanded preventive maintenance for mechanical equipment into the work order system;
- Completed first phase of wayfinding signage;
- Organized sustainable programs: *Live Green*, and the Lunch & Learn Series;
- Implemented optional mini-can program to increase recycling efforts;
- Installed the college's sustainable garden; and
- Became the first community college in the State of Maryland to be 100% green with its cleaning chemicals.

Information Technology

- Supported the design, deployment and analysis of 36 faculty-led assessments at the course, program and division level in addition to assessment for StarTalk and StepUP;
- Provided extensive programming support for the migration from seven academic terms to three major sessions of fall, spring, and summer that impacted billing, registration, financial aid, and enrollment;
- Completed network infrastructure upgrades and improvements to enable a major increase in Internet bandwidth to accommodate the rapidly growing demand of access for instruction, learning resources, and services;
- Updated the college's website with a new home page, foundation site, and pages for current and prospective students. Upgraded the web enterprise technology infrastructure;
- Completed the network infrastructure design and awarded the contract for IT in the health science building, which will incorporate a state-of-the-art fiber optic network that will extend directly to all devices and computers within the building;
- Installed the infrastructure and created a test environment to support deployment of a new HCC portal for students and staff;
- Upgraded core network switches and infrastructure in the network operations center and The Rouse Company Foundation Student Services Hall to improve network speeds, reliability, and in preparation of new building projects;
- Completed the installation and deployment of the final phase of the new campus phone system;

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

College Planning and Strategic Goals (continued)

Information Technology (continued)

- Implemented HCC INFOVIEW - Datatel's Colleague Business Objects module to support the foundation office, senior administration, student services, and academic affairs with research and information reports drawn from the Colleague database;
- Completed phase 1 of the digital signage project that provides high resolution graphic video announcements and promotions of campus information for students; and
- Deployed approximately 400 new desktops to offices and classrooms as part of the college's computer hardware refresh schedule.

Student Services

- Purchased technology to improve services to students, support outreach efforts, and increase efficiencies;
- Initiated test center renovations that will expand testing space in order to accommodate more testers and additional special testing programs;
- Secured Student Support Services TRIO (higher education support for three populations of students in need of more intensive support services) grant through the Department of Education;
- Partnered with Maryland Department of Disabilities and the Internal Revenue Service (IRS) to create a Federal Employment Information event emphasizing work opportunities for students with disabilities;
- Coordinated the addition of crisis/walk-in hours to assist in serving crisis students more effectively;
- Developed new office of judicial affairs to respond to and address student conduct issues and to provide guidance and policy interpretation to faculty and staff;
- Offered sexual health clinics twice a month through a partnership with the Howard County Health Department and the Wellness Center;
- Maintained 91% fall to spring retention rate with HCC students who have children enrolled at the Children's Learning Center;
- Expanded services to veterans, active military, BRAC, and their families; waived admission application fee and received recognition as a Military Advanced Education Top Military-Friendly Colleges and Universities Honoree;
- Completed asphalt and turf field improvements, along with installation of split rail fencing and gate to improve appearance and better control access to the fields; and
- Advanced to nationals— men and women's soccer, and men and women's cross-country (4 out of 5 fall teams).

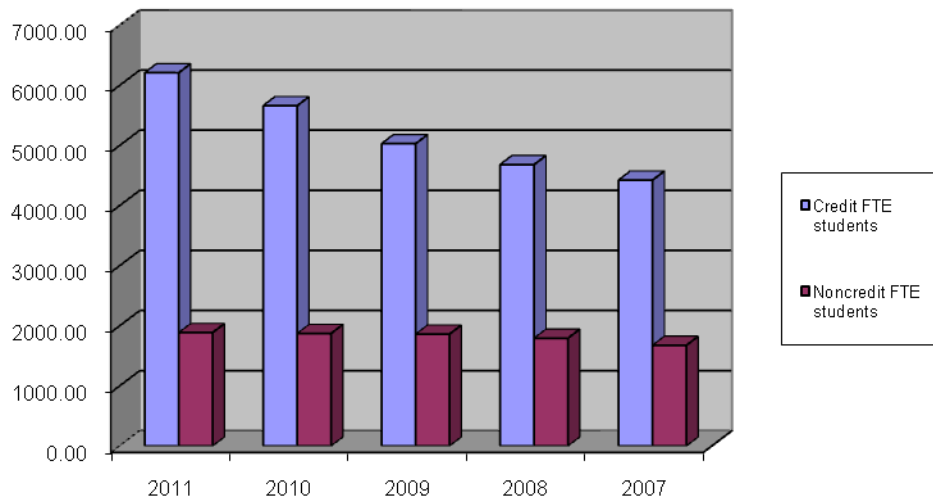
HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Enrollment Statistics and Analysis

For the year-ended June 30, 2011, the college served approximately 13,753 credit and 16,426 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Education 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 5,966.73 and 1,446.10 FTES, for a total increase of 7.47 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 6,210.46 and noncredit FTES of 1,886.74 increased 9.68 percent and .74 percent, respectively. Together this number created a total increase in FTES of 561.96 or 7.46 percent from the prior fiscal year. The credit enrollment increase was higher than anticipated. The FY11 budget included only a 4 percent increase. The chart below shows total FTES as opposed to state-funded FTES for the fiscal years 2007 through 2011.



	2011	2010	2009	2008	2007
Credit	6,210.46	5,662.34	5,030.59	4,682.13	4,425.10
Noncredit	1,886.74	1,872.90	1,862.37	1,793.93	1,676.16
Total FTES	<u>8,097.20</u>	<u>7,535.24</u>	<u>6,892.96</u>	<u>6,476.06</u>	<u>6,101.26</u>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Enrollment Statistics and Analysis (continued)

As seen in the previous chart, FTE growth was 32.71 percent for this five-year period. Enrollment growth continues to significantly exceed expectations. Credit enrollment is budgeted to grow 3 percent in FY12.

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 FY11, the actual unrestricted revenue were 41 percent (students), 31 percent (county), and 15 percent (state), respectively, with the final 13 percent coming from auxiliary and miscellaneous revenue. The students increased their share 2 percent over FY10 while Howard County Government and auxiliary and miscellaneous revenue both decreased 1 percent. The State share remained proportionally the same for both years. 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 FY11, 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 operating appropriation, however, decreased funding by 2 percent. 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. State and other grants also experienced a decline in funding as funds become scarce and more competitive. In-kind gifts from donors have declined as well. These funding levels contributed to the decision to increase tuition by \$2 per credit hour. In turn, more students are applying for and receiving financial assistance.

The college's challenge of funding and managing higher levels of growth than anticipated continues. Meeting student needs and expectations has been the college's primary focus. In FY11, budget cuts resulted in freezing seven positions, reducing travel, and reducing energy costs by using new clean technologies and renegotiating energy contracts. 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, 2011

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF NET ASSETS

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 23,426,791	\$ 26,202,423	(\$2,775,632)	-11%
Tuition receivable, net	228,095	261,682	(33,587)	-13%
Government grant receivable	995,637	912,347	83,290	9%
State of Maryland capital receivable	7,574,625	6,121,622	1,453,003	24%
State of Maryland receivable, net	506,567	1,243,988	(737,421)	-59%
County capital receivable	51,740	778,882	(727,142)	-93%
Other accounts receivable	233,579	261,865	(28,286)	-11%
Property Held for Sale	2,700,000	-	2,700,000	n/a
Inventory	818,072	710,862	107,210	15%
Prepaid expenses	677,377	742,690	(65,313)	-9%
Total current assets	<u>37,212,483</u>	<u>37,236,361</u>	<u>(23,878)</u>	0%
Non-Current Assets				
Capital assets, net	<u>155,052,483</u>	<u>146,976,056</u>	<u>8,076,427</u>	5%
Total Assets	<u>192,264,966</u>	<u>184,212,417</u>	<u>8,052,549</u>	4%
LIABILITIES				
Current Liabilities				
Accounts payable	3,213,528	2,971,988	241,540	8%
Accrued wages	1,320,986	1,301,526	19,460	1%
Accrued compensated absences	1,994,014	2,015,104	(21,090)	-1%
Payable to PGCC – joint venture	543,554	376,748	166,806	44%
Payable to Howard County for construction	7,481,453	5,913,759	1,567,694	27%
Current portion of bond payable, Howard County	381,416	365,918	15,498	4%
Other payables	337,495	375,585	(38,090)	-10%
Deposits	102,316	378,660	(276,344)	-73%
Agency funds	792,337	642,463	149,874	23%
Deferred revenue	2,589,513	2,795,651	(206,138)	-7%
Total current liabilities	<u>18,756,612</u>	<u>17,137,402</u>	<u>1,619,210</u>	9%
Non-Current Liabilities				
Bond payable, Howard County, net of current	<u>8,866,204</u>	<u>9,247,620</u>	<u>(381,416)</u>	-4%
Total Liabilities	<u>27,622,816</u>	<u>26,385,022</u>	<u>1,237,794</u>	5%
NET ASSETS				
Invested in capital assets, net of related debt	147,695,662	136,583,636	11,112,026	6%
Restricted funds, expendable	726,415	754,314	(27,899)	-4%
Unrestricted	16,220,073	20,489,445	(4,269,372)	-21%
Total Net Assets	<u>\$ 164,642,150</u>	<u>\$ 157,827,395</u>	<u>\$ 6,814,755</u>	4%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

As of June 30, 2011, total net assets increased 4 percent, or \$6,814,755. Capital assets, net of debt, increased by \$11,112,026. 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 \$10,776,427 and decreased accounts payable/debt associated with those assets by \$335,599. Unrestricted net assets decreased 21 percent, or \$4,269,372, primarily due to the use of college funds for the parking garage. A detailed schedule of fund balances follows this section. In addition, restricted assets decreased 4 percent as some grants used available cash received in the prior year. Restricted funds will be expended in FY12.

The most significant change in the college's assets, which increased in total by 4 percent, was the 5 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, 2011, at \$6,904,676, increased \$5,003,749, and is also included. CIP projects include the new health sciences building, the renovations of the test center and culinary kitchen, and preliminary work on the Mt. Airy center and the science, engineering and technology building.

The Belmont Conference Center has been removed from long-term capital assets due to its pending sale. It has been reclassified as a current asset, "Property Held for Sale," and is valued at \$2,700,000 to match the sale offer the college received during FY11. The write down of \$2,027,912 is included in the statement of revenue, expenses, and changes in net assets. For more information concerning this transaction refer to footnote number 11 following the financial statements.

Capital purchases, construction and renovation projects which provide usefulness over multiple years, less depreciation and retirements of assets increased by \$8,076,427. In addition to the increase in CIP, other major additions included the new 723-space parking garage and the furniture and equipment phase of the Clark Library building renovation. The breakdown by asset category can be found in footnote number 6 following the financial statements. Another significant change in assets was the \$2,775,632, or 11 percent decrease in cash. This decline was due to cash used for the construction of the new parking garage and will continue to decrease in FY12, as planned in the capital budget. While the garage was put into use this year, the entire project, which includes outstanding payables, encumbrances, and future changes to the back entrance and roadway, is not complete.

Those assets with significant percentage changes in the asset itself included State of Maryland capital receivable up 24 percent, State of Maryland receivable down 59 percent, and County capital receivable down 93 percent. The State of Maryland capital receivable increase is due to outstanding construction costs for the new health sciences building. These costs were funded by and therefore payable to the county, once received. The decrease in other State receivables is due to the reduction in amounts due for the manpower shortage programs offered at HCC. This state program allows HCC to offer students from other counties, in-county rates. Due to a state funding deficit in this program beyond FY12, and the uncertainty of when or if payment for FY11 tuition will be made, the college will not recognize this revenue/receivable until funding is determined.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

Total college liabilities increased 5 percent from the same period last year. The one significant increase of 27 percent was the construction payable due to Howard County Government at year-end. This liability is offset by funds due from the State of Maryland for capital projects.

Those liabilities with significant percent changes in the liability itself include an increase of 44 percent in the payable due to Prince George's Community College (PGCC), deposits, which decreased 73 percent and agency funds which increased 23 percent. The payable due to PGCC is for cost sharing at the Laurel College Center. Each year-end, revenue 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. The increase is due to one-time equipment replacement and installation costs paid by PGCC for the center. The decrease in deposits held was the loss of Belmont event deposits. The Belmont Conference Center discontinued operations in December of 2010. Agency funds increased due to higher than anticipated fees collected for student government programs, due to HCC's higher than anticipated enrollment growth. Since spending budgets are developed in advance, excess fees were not spent and are being held for future programming.

Long-term bonds payable, 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. This debt decreased 4 percent. The debt repayment schedule is detailed in footnote number 7 following the financial statements

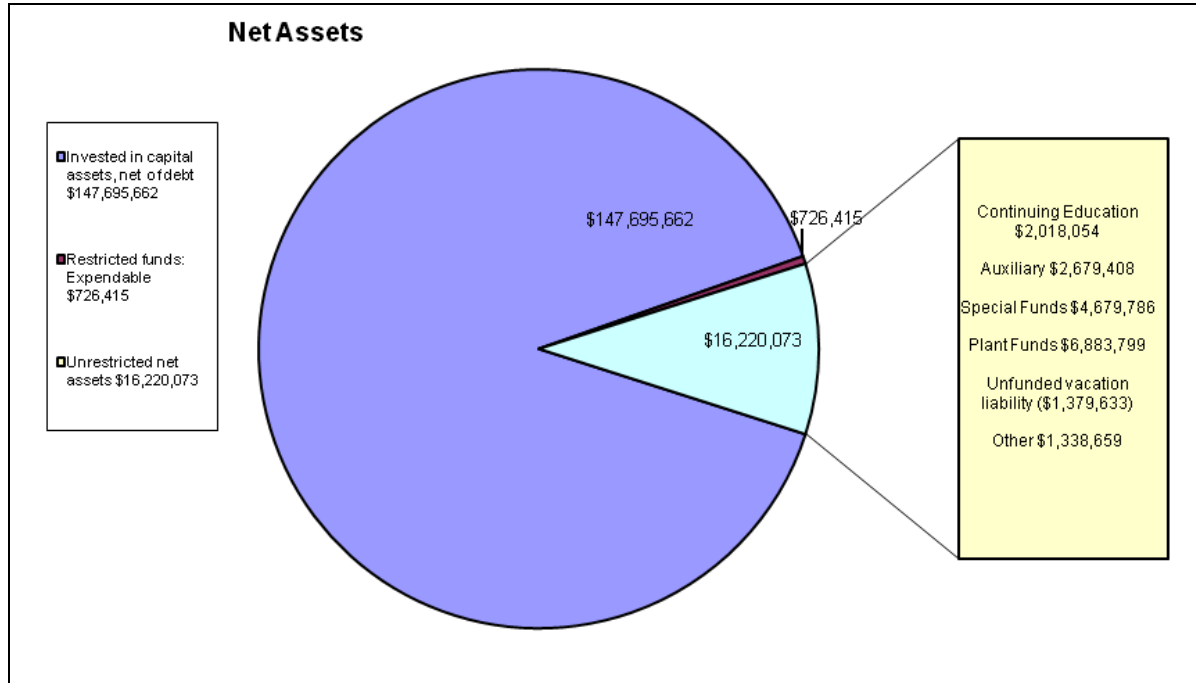
Unrestricted net assets are designated as follows:

	June 30, 2011	June 30, 2010	Variance
Continuing education	\$ 2,018,054	\$ 2,590,426	(\$ 572,372)
Auxiliary enterprises	2,679,408	2,383,241	296,167
Special funds	4,679,786	4,982,926	(303,140)
Plant funds	6,883,799	10,152,901	(3,269,102)
Other	1,338,659	1,780,674	(442,015)
Unfunded vacation liability	(1,379,633)	(1,400,723)	21,090
	<hr/>	<hr/>	<hr/>
Total unrestricted net assets	\$ 16,220,073	\$ 20,489,445	(\$ 4,269,372)

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)



Continuing Education

The continuing education division of the college generated 9 percent of the college's unrestricted revenue, netting \$929,154 over direct expenses of the division and funded \$536,526 of indirect costs in the operating budget. The division transferred \$965,000 to prefund expenses for the Laurel College Center expansion and to create operating contingencies for each functional area of the budget. This resulted in an overall decrease in net assets of \$572,372. In this division, noncredit FTES totaled 1,886.74 and increased by .7 percent over FY10.

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. The fund balance of the auxiliary fund is held to cover future security needs for special art events, maintenance of the Belmont property, and to cover potential deficits of the food services and Children's Learning Center operations.

Bookstore sales revenue declined, for the first time in the college's history, by 2 percent. Expenses also declined in relation to the sales loss, by .69 percent. New legislation addressing book sales, and the use of online books and book rental agreements, all contributed to the decline in sales. The bookstore net profit for the year was \$205,977 which is 21 percent less than last year. Profits were used to fund costs for the sunshine fund and community events, leaving \$179,757 to increase net assets of the auxiliary fund.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

Childcare tuition revenue of \$937,379 earned by the CLC was 7 percent over the prior year. The 3 percent tuition rate increase and higher enrollments at the center attributed to the increase. Capacity was on average 92 percent during the year. Expenses of \$1,201,934 were up five percent over the prior year, when removing the debt service which was paid off in FY10.

The CLC received funding support from the instructional area (\$150,000) and the student services area (\$145,427). 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 facility for the college's students in the early childhood education program. Although the center did not receive funding support from the Howard Community College Educational Foundation this year, it has in the past and expects to receive support in future years, as contributions allow.

The Belmont Conference Center experienced a \$266,995 loss in fiscal 2011, which was covered by the college at year-end. Business was affected in both FY11 and FY10 due to the economic recession and the decision to sell the property, made by the board of trustees in August 2009. In the fall of 2010, the board of trustees authorized the college to discontinue business operations at Belmont effective, December 31, 2010. It is anticipated that the sale of the property will occur in FY12, and funds have been allocated to support maintenance of the center and grounds until its sale. For more information on the pending sale of the property, refer to footnote 11, after the financial statements.

Special Funds

Special funds are programs within the college that are primarily self-supporting. Overall, these programs reduced the fund balance by \$303,140, spending funds carried forward from FY11. Some programs receive financial assistance from the operating budget. They include the Rep Stage, student arts programs, ADA accommodations, tutoring, Project Access, and special projects and assignments. Transfers were made from both the operating and continuing education funds, into the special funds, to support program costs for FY11 and also to pre-fund anticipated FY12 costs. Also from the operating fund, \$445,843 was transferred to special funds to pay for year-end items that will be received and paid for in FY12. In addition, funds identified from various programs during the FY12 budget development process were transferred from the special funds to the operating fund to cover the anticipated FY12 deficit of \$1,338,659.

Plant Funds

Plant funds include construction projects, such as the new health sciences building, the second parking garage, major renovations to the test center and culinary kitchen, final furniture and equipment for Clark Library Hall, a phone system upgrade, the front campus parking lot paving, and various other smaller capital renovation projects. The projects are funded with state, county and student fees. Debt payments on outstanding bonds are also made from plant funds. The plant fund decreased by \$3,269,102 as planned in the budget. Funds were used primarily for the college's second parking garage. Additional reductions in these funds will also occur in FY12 as this project and roadway work continues.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

Other and unfunded vacation liability

For the year ended June 30, 2011, the college reserved \$1,338,659 to maintain a carry over fund balance in the operating fund needed to support a revenue shortfall in the FY12 budget. These funds were available due to excess revenue earned from higher than anticipated enrollment growth. This, however, is offset by the deficit funding for the vacation liability of \$1,379,633.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Operating Revenue				
Student tuition and fees, net of discounts, allowances and financial aid	\$ 26,523,704	\$ 25,141,131	\$ 1,382,573	5%
Cultural, community and other programs	1,061,885	998,068	63,817	6%
Auxiliary revenue, net of financial aid	4,257,611	5,225,764	(968,153)	-19%
Other operating revenue	360,124	259,502	100,622	39%
Total operating revenue	<u>32,203,324</u>	<u>31,624,465</u>	<u>578,859</u>	2%
Operating Expenses				
Instruction	38,479,829	35,417,803	3,062,026	9%
Public service	566,474	505,715	60,759	12%
Academic support	4,319,284	4,099,917	219,367	5%
Student services	7,683,577	6,748,717	934,860	14%
Operation and maintenance of plant	7,707,217	7,851,252	(144,035)	-2%
Institutional support	11,724,403	11,132,043	592,360	5%
Scholarships and related expenses	1,987,347	2,106,112	(118,765)	-6%
Auxiliary enterprises	6,962,916	7,426,364	(463,448)	-6%
Certain fringe benefits paid directly by the state	3,100,617	2,738,918	361,699	13%
Certain fringe benefits paid directly by Howard County Government	208,523	375,851	(167,328)	-45%
Write down of Property Held for Sale	2,027,912	-	2,027,912	n/a
Unallocated depreciation	7,559,318	7,301,691	257,627	4%
Total operating expenses	<u>92,327,417</u>	<u>85,704,383</u>	<u>6,623,034</u>	8%
Operating loss	<u>(60,124,093)</u>	<u>(54,079,918)</u>	<u>(6,044,175)</u>	11%
Non-operating Revenue (Expenses)				
Howard County Government appropriations	25,195,470	25,195,470	-	0%
State of Maryland appropriations	12,395,596	12,629,815	(234,219)	-2%
State grants and contracts	1,533,191	1,753,166	(219,975)	-13%
Federal grants and contracts	10,375,385	8,355,353	2,020,032	24%
Local grants and contracts	120,000	120,000	-	0%
Other grants and contracts	700,157	909,793	(209,636)	-23%
Certain fringe benefits paid directly by the state	3,100,617	2,738,918	361,699	13%
Certain fringe benefits paid directly by Howard County Government	208,523	375,851	(167,328)	-45%
Investment income	50,245	58,260	(8,015)	-14%
Interest on debt to Howard County	(450,912)	(475,685)	24,773	-5%
Net Non-operating Revenue	<u>53,228,272</u>	<u>51,660,941</u>	<u>1,567,331</u>	3%
(Loss), before capital appropriations	(6,895,821)	(2,418,977)	(4,476,844)	185%
Capital appropriations from Howard County, State and other	<u>13,710,576</u>	<u>8,077,641</u>	<u>5,632,935</u>	70%
Increase in net assets	6,814,755	5,658,664	1,156,091	20%
Net assets, beginning of year	157,827,395	152,168,731	5,658,664	4%
Net Assets, End of Year	<u>\$ 164,642,150</u>	<u>\$ 157,827,395</u>	<u>\$ 6,814,755</u>	4%

HOWARD COMMUNITY COLLEGE

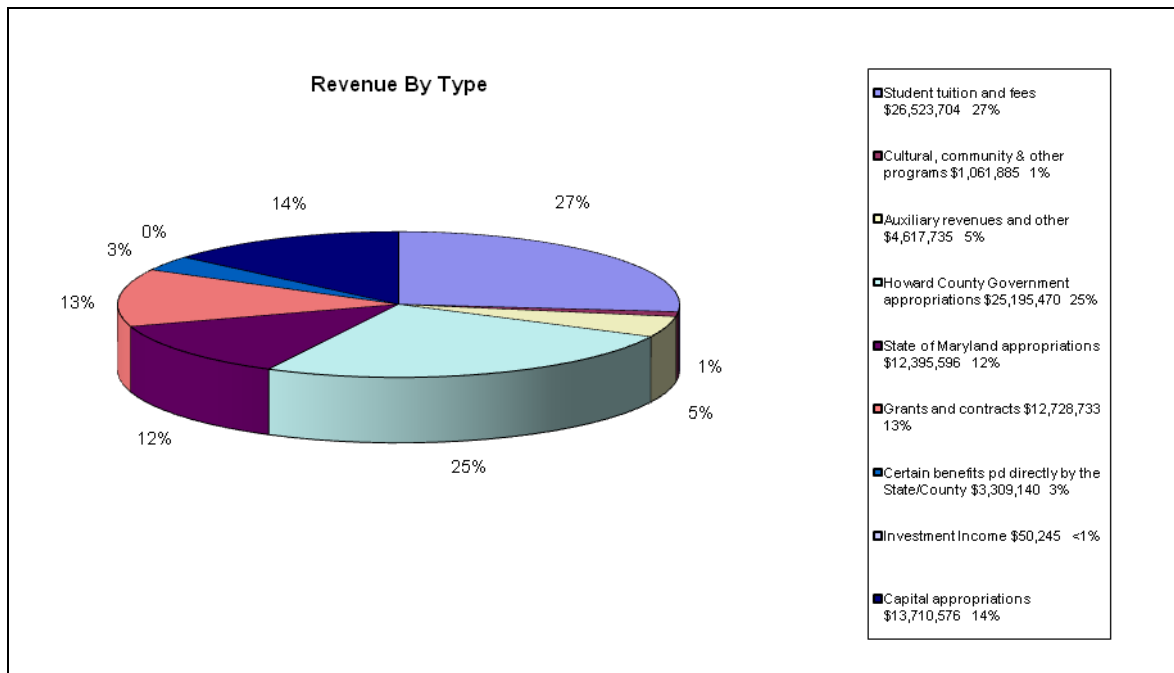
Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

Operating Revenue

For the year-ended June 30, 2011, total operating revenue increased 2 percent, or \$578,859. Net tuition and fees (gross tuition and fees, less tuition amounts paid by financial assistance) increased by 5 percent, the result of the college's overall enrollment growth of 7.46 percent. Gross tuition and fees increased 9 percent while tuition amounts paid for by financial assistance increased 18 percent. Funds received from the government for federal assistance decrease total tuition and fees and are recorded as grant revenue for financial statement purposes. Pell grant recipients increased 28 percent over FY10.

The 19 percent decrease in auxiliary revenue, or \$968,153 decline, is primarily down due to discontinued operations of the Belmont Conference Center mid-year, as 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 48 percent over FY10. Other operating revenue, up 39 percent or \$100,622, comes from higher consulting revenue in continuing education, rental fees, and general miscellaneous revenue.



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

Operating Expenses

Total operating expenses increased 8 percent or \$6,623,034 over last year. Permanent positions received on average merit increase of 1.5 percent in FY11 and benefit costs rose approximately 6.9 percent.

This year, the college wrote down the value of the Belmont property by, \$2,027,912. Due to current economic conditions, the offer received by the college was significantly lower than what was paid for the property. The county, who has the right of first refusal on the property, has exercised their option to buy Belmont at the price of \$2,700,000. The asset was therefore written down to match the offer. For more information on this transaction, please refer to note 11 after the financial statements.

Other significant percentage increases in expenditures included instructional, which increased 9 percent, public service, which increased 12 percent, and student services, which increased 14 percent. Instruction, which includes direct costs of teaching, increased 6 percent for salary and benefits and 26 percent for instructional supplies, both results of the enrollment growth experienced. Public service had an increase in expenses related to the new radio station. Hourly support increased and the purchase of new equipment occurred in FY11. Student services expenses increased 16 percent in salary and benefits in order to provide adequate support services to our growing student body. Advising, admissions, testing, registration, financial aid, and welcome center services all required additional temporary staffing during FY11.

Certain fringe benefits paid directly by the state increased 13 percent and by the county decreased 45 percent, respectively. This increased cost relates to employee retirement benefits and is partially based on estimated future retirement benefit payouts.

Scholarship and related expenses decreased 6 percent over FY10. 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. As noted above under reductions to revenue, amounts of financial assistance applied to tuition and fees rose 18 percent, while costs related to books and child care expenses rose 48 percent. This expense category includes only financial assistance paid directly to students.

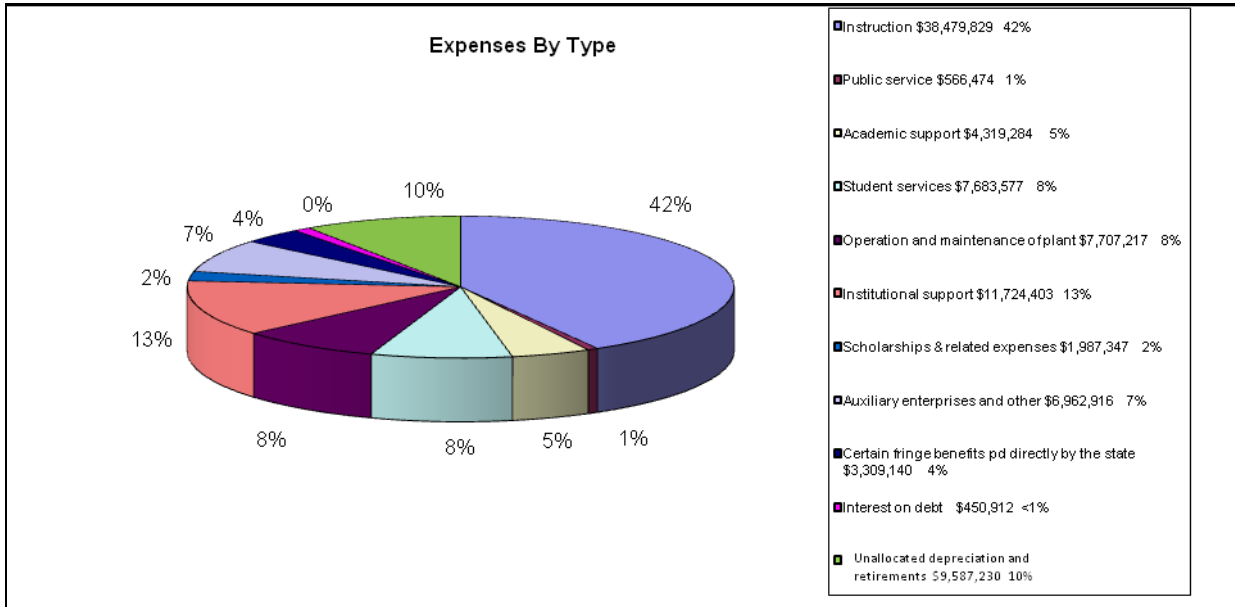
Again this year, there was an increase in the number of students receiving federal assistance. Pell scholarship expenditures increased 27 percent over FY10. As noted above, more of these awards are reflected as a reduction of tuition, fees and books and less was given directly to students for indirect costs.

Auxiliary expenses decreased 6 percent from the prior year. This is primarily due to the reduction of expenses of the Belmont Conference Center, which discontinued operations in December and bookstore purchases which were reduced to match lower textbook sales, both mentioned above. Plant expenses were 2 percent lower due to energy savings efforts and renegotiated utility rates.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)



Non-operating Revenue

Non-operating revenue increased 3 percent, or \$1,567,331. State, local, and grant appropriations are classified as non-operating revenue because they are considered non-exchange transactions. The county appropriations had no change and the State appropriation declined 2 percent from FY10.

The 24 percent increase in federal grants and contracts reflects the increase in federal financial aid awards to students explained previously under expenses. State grants and contracts decreased 13 percent. State scholarships declined as well as funding for adult basic education. Other grants and contracts decreased 23 percent. Many grants received from outside foundations in FY10, were not funded in FY11. Several programs that lost funding were nursing, community outreach, and Rep Stage. In addition, in-kind donations declined 84 percent from the prior year. These reductions in funding are the result of current economic conditions. Certain fringe benefits paid directly by the state increased 13 percent and by the county decreased 45 percent, and offset the expense mentioned above.

Investment income decreased 14 percent due to the continuing decline of interest rates. The interest on debt to Howard County decreased 5 percent because of the declining debt balance and the debt refinancing done during 2010 to lower interest rates.

Capital Appropriations

Capital appropriations from Howard County government and the State of Maryland increased 70 percent. Funding increased for the new health sciences building, the second parking garage, the Clark Library building furniture and equipment, and various renovations.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

	STATEMENTS OF CASH FLOWS			
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (46,654,999)	\$ (43,467,809)	\$ (3,187,190)	7%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing activities	50,457,200	48,949,478	1,507,722	3%
Cash Flows From Capital Financing Activities				
Net cash used by capital financing activities	(6,628,078)	(4,462,452)	(2,165,626)	49%
Cash Flows From Investing Activities				
Interest on investment	<u>50,245</u>	<u>58,260</u>	<u>(8,015)</u>	-14%
Net decrease in cash and cash equivalents	(2,775,632)	1,077,477	(3,853,109)	-358%
Cash, beginning of the year	<u>26,202,423</u>	<u>25,124,946</u>	<u>1,077,477</u>	4%
Cash, End of Year	<u>\$ 23,426,791</u>	<u>\$ 26,202,423</u>	<u>\$ (2,775,632)</u>	-11%

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 7 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 3 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 and the purchases of assets increased from 2010 due to new construction projects. Interest and debt payments were lower as the result of lower rates and balances due. Overall, the college had a 49 percent increase in net cash used by capital financing.

The college's investing cash flows come from investment income decreased 14 percent. This decrease was due to the continued decline in interest rates due to economic factors.

In 2011, net cash decreased by \$2,775,632, and the college's cash balance as of June 30, 2011, was \$23,426,791. The college believes that its liquidity position as of June 30, 2011, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2011.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Financial Statement Highlights and Analyses (continued)

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 \$38,214,035 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.

Local governments have been slow to recover over the last year while revenue have declined. The recent decline in the country's credit rating will likely only slow the recovery even further. Although the long-term outlook for Howard County remains strong as personal income growth starts to recover, property and real estate tax based revenue will take a long time to rebound. The pre-recession economy saw strong growth in Howard County in both the real estate market and income taxes, allowing the county to fund substantial budget increases and play a significant leadership role in the state of Maryland. However, the county's total revenue now are in a period of slower growth and the county will have to adjust its spending levels in FY12 and likely continue through FY15 to reflect the "new normal". While income tax revenue will continue to show some growth, property taxes will remain near current levels with little growth for the next several years. Moderate projections for the county's personal income tax revenue have shown growth of 4.2 percent for FY11 and 5.3 percent in FY12. The decline in property tax assessments are projected to continue until at least FY13 and will affect property tax collections into FY15 and beyond. The combination of the triennial assessment process and the county's five percent cap on growth in the taxable assessment base has worked to smooth out and defer much of the growth of the last several years. This means the county will have limited revenue from property taxes that are expected to grow only 0.5% in FY12. Based on these projections, the county has been prudent in its projected spending, with small increases in its FY12 budget. The college benefited from this growth and received a three percent increase in FY12 funding, which was the first increase from the county since FY09.

Long-term, Howard County has a strong and vibrant economy and was named by *Money* magazine as the second best place in the United States to live in FY10. With the implementation of Base Realignment and Closure (BRAC) recommendations and a 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 over the next decade.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2011

Economic Factors that Will Affect the Future (continued)

At the state level, the community colleges received less funding in FY11 than in FY10. Although HCC was fortunate not to receive a mid-year reduction from the state in FY11, funding was slightly less than FY09. For FY12, the legislature approved level funding for the community colleges; however, the legislation permanently altered the state's reimbursement for Statewide and Health Manpower Shortage programs. Instead of reimbursing the colleges on an FTE basis, the colleges will receive a prorated reimbursement according to the annual appropriation in the budget. The impact of this change for HCC may be a loss of \$796,639 in state revenue. The college could offset this loss by charging students in the programs out-of-county rates; however, this will negatively impact the students and cause a drop in enrollment in areas where a shortage of trained personnel already exists and negatively affect revenue. Consistent with the governor's focus on affordability, the state's FY12 budget includes \$5 million as an incentive to community colleges to hold tuition increases between FY11 and FY12 to three percent or less. HCC's budget has kept the tuition increase under three percent and is scheduled to receive \$291,216 of the \$5 million. The state restructured the public employees and teachers pension system to require employees to contribute two percent more of their salary to the pension system. In addition, the colleges will now pay a fee for these programs. The prospect of the transfer of a portion of the program to local governments remains unresolved and will probably be addressed in the FY12 session. With the new realities of state and local funding, the college continues to be prudent in its spending practices and continues to look for ways to reduce costs throughout the college.

This past year, the college completed its re-accreditation process and passed all 14 of the Middle States Association standards. To help manage growth and its accompanying challenges, the college continues efforts to improve through self-assessment. For 2007, 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 the honor since. In addition, for the third consecutive year, HCC has been named one of the *Chronicle of Higher Education's Great Colleges to Work For* in the nation and named to the Honor Roll. HCC is the only community college in Maryland to have been selected three consecutive times and is one of only 12 community colleges in the U.S. to be named to the 2011 Honor Roll.

HOWARD COMMUNITY COLLEGE

Statements of Net Assets As of June 30, 2011

	<u>Howard Community College</u>	<u>Howard Community College Educational Foundation, Inc.</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 23,426,791	\$ 281,744
Investments and interest in irrevocable trust	-	8,227,141
Tuition and other receivable, net of allowance of \$1,728,095	228,095	-
Federal, state, local and other receivables, net	9,362,148	67,335
Contributions receivable, net of allowance of \$10,150	-	759,707
Property Held for Sale	2,700,000	-
Inventory	818,072	-
Prepaid expenses and other assets	677,377	13,282
Total current assets	<u>37,212,483</u>	<u>9,349,209</u>
Non-current Assets		
Capital assets, net	<u>155,052,483</u>	<u>-</u>
Total Assets	<u>192,264,966</u>	<u>9,349,209</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	4,534,514	64,510
Accrued compensated absences	1,994,014	-
Payable to PGCC - joint venture	543,554	-
Payable to Howard County for construction	7,481,453	-
Other payables	337,495	-
Bonds payable, Howard County, current portion	381,416	-
Deposits	102,316	-
Agency funds	792,337	-
Deferred revenue	2,589,513	18,000
Total current liabilities	<u>18,756,612</u>	<u>82,510</u>
Non-current Liabilities		
Bonds payable, Howard County, net of current portion	<u>8,866,204</u>	<u>-</u>
Total Liabilities	<u>27,622,816</u>	<u>82,510</u>
NET ASSETS		
Invested in capital assets, net of related debt	144,995,662	-
Property Held for Sale	2,700,000	-
Restricted funds: Expendable	726,415	-
Unrestricted	16,220,073	981,030
Temporarily restricted	-	3,561,772
Permanently restricted	-	4,723,897
Total Net Assets	<u>\$ 164,642,150</u>	<u>\$ 9,266,699</u>

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, 2011

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees, (net of discounts, allowances and financial aid, \$8,765,304)	\$ 26,523,704	\$ -
Cultural, community, and other programs	1,061,885	-
Auxiliary revenue, (net of financial aid of \$1,405,758)	4,257,611	-
Other operating revenue	360,124	-
Contributions, including in-kind	-	2,057,849
Special events	-	632,232
Total Operating Revenue	32,203,324	2,690,081
Operating Expenses		
Instruction	38,479,829	-
Public service	566,474	-
Academic support	4,319,284	-
Student services	7,683,577	-
Operation and maintenance of plant	7,707,217	-
Institutional support	11,724,403	464,297
Scholarships and related expenses	1,987,347	-
Program expenses	-	970,310
Cost of direct benefits to donors	-	516,726
Fundraising	-	223,474
Auxiliary enterprises	6,962,916	-
Certain fringe benefits paid directly by the State and Howard County Government	3,309,140	-
Unallocated depreciation and loss on asset disposal	9,587,230	-
Total Operating Expenses	92,327,417	2,174,807
Operating (Loss) Income	(60,124,093)	515,274
Non-Operating Revenue (Expenses)		
Howard County government appropriations	25,195,470	-
State of Maryland appropriations	12,395,596	-
Federal, state, local and other grants and contracts	12,728,733	-
Certain fringe benefits paid directly by the State and Howard County Government	3,309,140	-
Investment income	50,245	92,146
Net realized and unrealized loss on investments	-	809,374
Interest expense	(450,912)	-
Net non-operating revenue	53,228,272	901,520
(Loss) Income before capital appropriations	(6,895,821)	1,416,794
Capital appropriations	13,710,576	-
Increase in net assets	6,814,755	1,416,794
Net assets, beginning of year	157,827,395	7,849,905
Net Assets, End of Year	\$ 164,642,150	\$ 9,266,699

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows For the Year Ended June 30, 2011

	Howard Community College
Cash Flows From Operating Activities	
Tuition and fees	\$ 26,757,226
Payments to suppliers	(22,705,565)
Payments to employees	(46,852,337)
Payments for employee benefits	(9,533,943)
Auxiliary enterprises	4,257,611
Other receipts	1,422,009
	<hr/>
Net Cash From Operating Activities	(46,654,999)
	<hr/>
Cash Flows From Non-Capital Financing Activities	
State appropriations	12,395,596
Local appropriations	25,195,470
Grant and contracts	12,716,260
Student loan receipts	6,721,989
Student loan disbursements	(6,721,989)
Agency funds receipts	442,367
Agency funds disbursements	(292,493)
	<hr/>
Net Cash From Non-capital Financing Activities	50,457,200
	<hr/>
Cash Flows From Capital Financing Activities	
Capital appropriations	14,552,410
Purchase of capital assets	(20,363,657)
Interest expense payments	(450,912)
Principal payments on bonds	(365,919)
	<hr/>
Net Cash From Capital Financing Activities	(6,628,078)
	<hr/>
Cash Flows From Investing Activities	
Interest on investments	50,245
	<hr/>
Net decrease in cash and cash equivalents	(2,775,632)
Cash and cash equivalents, beginning of year	26,202,423
Cash and Cash Equivalents, End of Year	\$ 23,426,791

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, 2011

	Howard Community College
Reconciliation of Net Operating Loss To Net Cash From Operating Activities	
Operating loss	\$ (60,124,093)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense and loss on asset disposal	9,587,230
In-kind contributions	12,473
Amounts paid directly by the state and county	3,309,140
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	716,004
Inventory	(107,210)
Prepaid and other assets	65,313
Accounts and other payables	113,372
Deferred revenue	(206,138)
Compensated absences	(21,090)
Net Cash From Operating Activities	\$ (46,654,999)

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2011

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 2011, 79 percent of the college's credit student populations were 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, 2011

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, 2011

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, 2011, the net tuition receivable was \$228,095. Federal, state and local receivables are net of an allowance for an uncollectible state receivable due to deficit funding of the manpower shortage program. Included in other receivables are amounts collectible for bookstore credit memos, non-governmental grants 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 was a \$10,150 allowance for uncollectible accounts recorded as of June 30, 2011.

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, 2011. 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, 2011

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

The college accrues for unused compensated absences at year-end. Accrued compensated absences as of June 30, 2011 were \$1,994,014.

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, 2011

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, 2011, 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 \$726,415 represent grants given to the college for a specific use, designated by the grantor. Property held for sale is \$2,700,000. The unrestricted balance of \$16,220,073 represents auxiliary enterprise funds of \$2,679,408, continuing education funds of \$2,018,054, cultural, community, theatre and other funds of \$6,018,445, and \$6,883,799 designated for construction and debt repayment, net of \$1,379,633 of unfunded vacation liability.

The investment in capital assets of \$144,995,662 is net of related debt that includes the bond debt to Howard County of \$9,247,620, and outstanding payables related to construction projects as of June 30, 2011, of \$809,201.

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, 2011

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 sources 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, 2011, the college netted expenses in the amount of \$10,171,062, reducing tuition revenue by \$8,765,304, and bookstore scholarships, and childcare tuition, in auxiliary enterprise revenue by \$1,405,758.

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, 2011

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 principal 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, 2011, was \$228,903. 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, 2011, was \$662,819.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

Advertising expense of the foundation (including in-kind contributions) for the year ended June 30, 2011, was \$161,965.

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, 2011, GASB issued statement no. 60, entitled *Accounting and Financial Reporting for Service Concession Arrangements*; statement no. 61, entitled *The Financial Reporting Entity: Omnibus-an amendment of GASB No.14 and No. 34*, statement no. 62, entitled *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1998 GASB and AICPA Pronouncements*; statement no. 63, entitled *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and statement no. 64, entitled *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an Amendment of GASB Statement No. 53)*. 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. Deposits

As of year-end, the carrying amount of the college's deposits was \$421,023 and the bank balance was \$2,204,692. The deposits of the college were not exposed to custodial credit risk as of June 30, 2011. The operating account is federally insured up to \$250,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$250,000 were collateralized by a surety bond with a market value of \$10,000,000 as of June 30, 2011. The bond is held by the bank's agent in the college's name.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2011

3. CASH AND CASH EQUIVALENTS (continued)

B. 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, 2011, the college's investment balance consisted of \$22,994,183 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 11,585
Carrying amount of deposits	421,023
Carrying amount of MLGIP	22,994,183
Total cash and cash equivalents	\$ 23,426,791

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, 2011, 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, 2011, met the college's investment policy as of that date.

Investment income included interest and dividends in the amount of \$50,245 for the year ended June 30, 2011.

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 Adam 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, 2011

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, 2011.

4. INVESTMENTS OF THE FOUNDATION

The foundation's investments as of June 30, 2011, were summarized as follows:

	2011		
	Cost	Market	Unrealized Gain (Loss)
Fixed Income – corporate bonds	\$ 566,203	\$ 574,483	\$ 8,280
Mutual funds	2,092,725	2,165,736	73,011
Interest in external investment pool	5,416,186	5,380,917	(35,269)
Interest in irrevocable trust	87,262	106,005	18,743
Total	\$ 8,162,376	\$ 8,227,141	\$ 64,765

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2011, were recorded as follows:

Due in:	Amounts
Less than one year	\$ 416,726
One to seven years	382,129
	798,855
Less: discount	28,998
allowance for uncollectible accounts	10,150
Total	\$ 759,707

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2011

6. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for the year ended June 30, 2011:

	<u>June 30, 2010</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Land	\$ 2,078,705	\$ -	\$ 1,714,124	\$ 364,581
Land improvements	1,944,803	-	-	1,944,803
Buildings	113,674,293	10,702,553	3,148,630	121,228,216
Building renovations	58,778,027	2,493,765	764,397	60,507,395
Furniture and equipment	11,619,766	2,119,502	1,225,922	12,513,346
Library books	1,995,382	44,088	-	2,039,470
Leasehold improvements	1,954,084	-	-	1,954,084
Total	<u>192,045,060</u>	<u>15,359,908</u>	<u>6,853,073</u>	<u>200,551,895</u>
Less: accumulated depreciation	46,969,931	7,546,834	2,112,677	52,404,088
Assets, net of depreciation	<u>145,075,129</u>	<u>7,813,074</u>	<u>4,740,396</u>	<u>148,147,807</u>
Construction in progress	1,900,927	5,003,749	-	6,904,676
Total	<u>\$ 146,976,056</u>	<u>\$ 12,816,823</u>	<u>\$ 4,740,396</u>	<u>\$ 155,052,483</u>

7. BOND LIABILITY TO HOWARD COUNTY AND NOTE PAYABLE

The college is indebted to the county for bond issues in the amount of \$9,247,620 as of June 30, 2011, 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>For The Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 381,416	\$ 436,426
2013	396,187	421,957
2014	412,220	405,947
2015	531,213	382,793
2016	555,759	357,571
Thereafter	6,970,825	2,172,280
Total	<u>\$ 9,247,620</u>	<u>\$ 4,176,974</u>

Changes in the college's long-term liabilities for the year ended June 30, 2011, are as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Amounts Due in One Year</u>
Bond payable	<u>\$ 9,613,538</u>	<u>\$ -</u>	<u>\$ 365,918</u>	<u>\$ 9,247,620</u>	<u>\$ 381,416</u>

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2011

8. RESTRICTED NET ASSETS

Temporarily restricted net assets of the foundation of \$3,561,772 as of June 30, 2011, 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 \$4,723,897 as of June 30, 2011, 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 \$5,986,373 as of June 30, 2011. The composition of these assets is \$4,723,897 of permanently restricted, \$1,198,262 of temporarily restricted, and \$64,214 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 \$8,776 as of June 30, 2011. 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 \$46,934,155. The payroll of employees covered by either the Maryland State Retirement and Pension Systems or an ORP, was \$33,545,811.

The Maryland State Retirement and Pension Systems (MSRPS) is a cost-sharing multiple employer Public Employees Retirement System (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 MSRPS 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, 2011

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:

<u>For The Years Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 409,754	100%	-
2010	448,494	100%	-
2011	539,611	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, 2011, the state paid \$3,100,617 in retirement costs, equal to approximately 9.2 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, 2011

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 to the county and LGIT and expensed during the year ended June 30, 2011, was \$222,184.

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 \$5,719,114 for the year ended June 30, 2011.

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, 2011, the college provided \$662,819 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$486,289 in scholarships awarded to students and \$484,021 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, 2011

11. RELATED PARTY TRANSACTIONS (continued)

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 the 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, 2011, 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.

The college received an offer to purchase the Belmont property during FY11. At year-end, the county expressed its intention to exercise its right of first refusal at the purchase price of \$2,700,000. The sale/transfer from the college to the county is anticipated to occur in FY12. The property was written down to its current value of \$2,700,000 and is listed on the college's balance sheet as a current asset, "Property Held for Sale."

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, 2011, the college excluded \$29,792 in revenue and included \$513,763 in instructional operating expenses 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, 2011, was \$402,138.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2011

12. JOINT VENTURE (continued)

For FY12, the colleges entered into a five-year lease, with two additional five-year renewal options. This lease also contains a non-appropriation clause. If after 10 years the LCC has continued to lease the space, the LCC will receive a rent abatement of \$1,005,651 in year ten. The new lease contains an escalation clause of 3 percent per year. In addition, the colleges have increased the lease space by 4,514 square feet on another floor of the building. The colleges will pay for the build out in FY12, however, this cost of this footage will not be charged to the colleges for three years. The build out costs are anticipated to be approximately \$202,000 with ½ being HCC's share.

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

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 784,444
2013	807,961
2014	832,357
2015	857,218
2016	882,770
2017	147,842
Total	<u><u>\$ 4,312,592</u></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, 2011, the college has commitments of approximately \$38,214,035 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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2011

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 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, 2011, the county paid claims in excess of premiums of \$208,523 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 FY11.