

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, 2009



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2009

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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, 2009, 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, 2009, and the results of their operations 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 8, 2009, on our consideration of Howard Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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The Management's Discussion and Analysis is not a required part of the basic component unit financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary data. However, we did not audit the information and express no opinion on it.

SB & Company, LLC

Hunt Valley, Maryland
September 8, 2009

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Overview and Basis of Presentation

The following discussion and analysis provides an overview of Howard Community College's (referred to throughout as the college or HCC) planning, enrollment, and financial activities. The intent of this section of the annual financial report is to provide an objective analysis of the college's financial activities based on currently known facts, decisions, or conditions that impacted the operations of the college during fiscal year 2009. 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 Initiatives

The financial statements for the year ended June 30, 2009, 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. In FY09, the college implemented a new Mission, Vision and Values.

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

New strategic goals were also developed and these will be implemented for a five-year period beginning in FY10. The strategic initiatives in effect in FY09 are discussed below followed by the activities the college undertook to achieve these goals:

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

College Planning and Strategic Initiatives (continued)

Initiative I – Learning Community

HCC will be a learning community that provides possibilities for learning that address the current and ongoing needs of a diverse group of students throughout their lives. Our students will be at the center of our thinking and our planning processes, and we will be responsive to their needs and individual learning styles.

Initiative II – Access and Affordability

HCC will attract and retain a rich diversity of faculty, staff, and students into its programs and learning community. The college will strive to eliminate physical and conceptual barriers that inhibit learning and the college will respond quickly to changes in the educational and workplace environments to address the evolving needs of our community.

Initiative III – Economic and Workforce Development

HCC will take a leading role in workforce and economic development efforts within the county.

Initiative IV- Organizational Excellence

HCC will be an agile, purposeful organization that nurtures innovation and inquiry, and evaluates results against valid and ambitious criteria. It will maintain a climate that promotes the success of each employee and will provide a work environment that recruits, develops and rewards faculty and staff who are committed to excellence. And because it believes strongly in the idea of community, it will build a strong sense of ownership and responsibility among all students, faculty and staff. HCC will seek to nurture vibrant community, business, government, other associations, and educational partnerships.

Initiative V – Growth

HCC will aggressively seek the resources to accommodate growth and changes in the population of Howard County and growth in the numbers of citizens who will seek new learning opportunities from the college.

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

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

College Planning and Strategic Initiatives (continued)

Under goals related to being a *Learning Community*, the college implemented recommendations resulting from the Step Up and First Year Experience program assessments. These programs focus on improving retention. Step Up pairs students with faculty or staff who will coach them in meeting the challenges of college, while First Year Experience pairs student leaders with first-year students, providing a peer mentor. Other retention efforts included the development and implementation of strategies related to the new academic standards policy that will go into effect in fiscal year 2010. In collaboration with the STARTALK federal initiative, the college developed a summer program that provides critical languages to high school students. Hindi was added as a language option in this program. FY09 core work initiatives included the development of new programs and program options in aging services, nutrition, public health, radio production, radio and television production, management in the virtual environment, and ecological technology design. The new police science program was implemented and graduated the first class. Courses on transitioning to retirement or a second career for the senior population of Howard County were developed and the college partnered with other groups to make these courses available. New noncredit course and certification options were established in sustainability. Expansion of math and English placement testing in the high schools was done to improve percentages of development completers. Specific outcomes for internationalizing the curriculum were developed. In addition, the transition of Government TV (GTV) from the county to the college was completed during the year, which included an increase in staff and expansion of the studio facilities.

Related to HCC's goals under *Access and Affordability*, the college increased the capacity and enrollment in the Children's Learning Center (CLC) by 35 percent with a major renovation that expanded the facility. The center provides an affordable daycare option for HCC students. The college also expanded the "pay for college" initiative to include a financial literacy component for students as an effort to assist students in understanding and managing their finances as they obtain a college education. The college also began a \$4 million campaign to raise funds for endowed scholarships for students and is exploring ways to assist students to pay for study abroad experiences.

Regarding goals under *Economic and Workforce Development*, the college explored the possibility of a joint health science teaching facility with Mid-Maryland Allied Healthcare Education Consortium partners. This action was in response to emerging workforce needs and the need to develop programs and facilities for training. In addition, the college implemented an extension of the Technology Assessment Program and coordinated efforts of a pilot program for CyberWATCH, a network security co-op internship program, with Anne Arundel Community College and the Community College of Baltimore County.

Under our goals for *Organizational Excellence*, the college was recognized by the Chronicle of Higher Education as a, *Great College to Work For*, Howard was the only higher education institution in Maryland to earn this distinction.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

College Planning and Strategic Initiatives (continued)

Trainings that integrated the tenants of servant leadership were increased; the college's wellness program was expanded, and the implementation of Colleague's advancement module, which will enhance the foundation's accounting process and systems, was completed. Online grading implementation began and will be fully implemented in 2010. This past year, the college began the Middle States self-study process, which will continue throughout the upcoming fiscal year. Other safety and security related accomplishments under this initiative include the implementation of a behavior intervention model to identify and support students at risk for self-harm or violence, and a campus-wide threat assessment took place. In addition, a "Bike Patrol" was instituted to broaden security services throughout campus and the phased implementation of a campus-wide camera and security access system continued. Campus improvements needed in order to comply with the Americans with Disabilities Act were also completed during the year.

The college's goals under *Growth* continue to be aggressive. Enrollment outpaced projections for fiscal 2009, 6.4 percent as opposed to the expected 3 percent, and rapid growth continues as the college embraces an unexpected double-digit headcount increase for the fall term of 2010. State-funded FTE grew by 7.65 percent. Continuing education increased revenues significantly higher than anticipated and those results are detailed later in this report. Initiatives related to base realignment and closure (BRAC) continue to be addressed in collaboration with the county and state governments. Major renovation projects included the completion of McCuan Hall and the Smith Theatre, pool renovations, and the expansion of the CLC, mentioned above. The James Clark Jr. Library building renovations will be completed in spring 2010, Architectural services have begun for the design of a second parking garage and to prepare a 10-year master plan. These initiatives hope to address enrollment growth and campus land planning initiatives as well as parking needs of the students and staff for the coming years. Major computer upgrades were done throughout campus to provide state-of-the-art equipment in classrooms and labs. In addition, the college developed a comprehensive plan to achieve the goals of the American College and University Presidents Climate Commitment and continues in efforts to significantly reduce paper use across campus.

Enrollment Statistics and Analysis

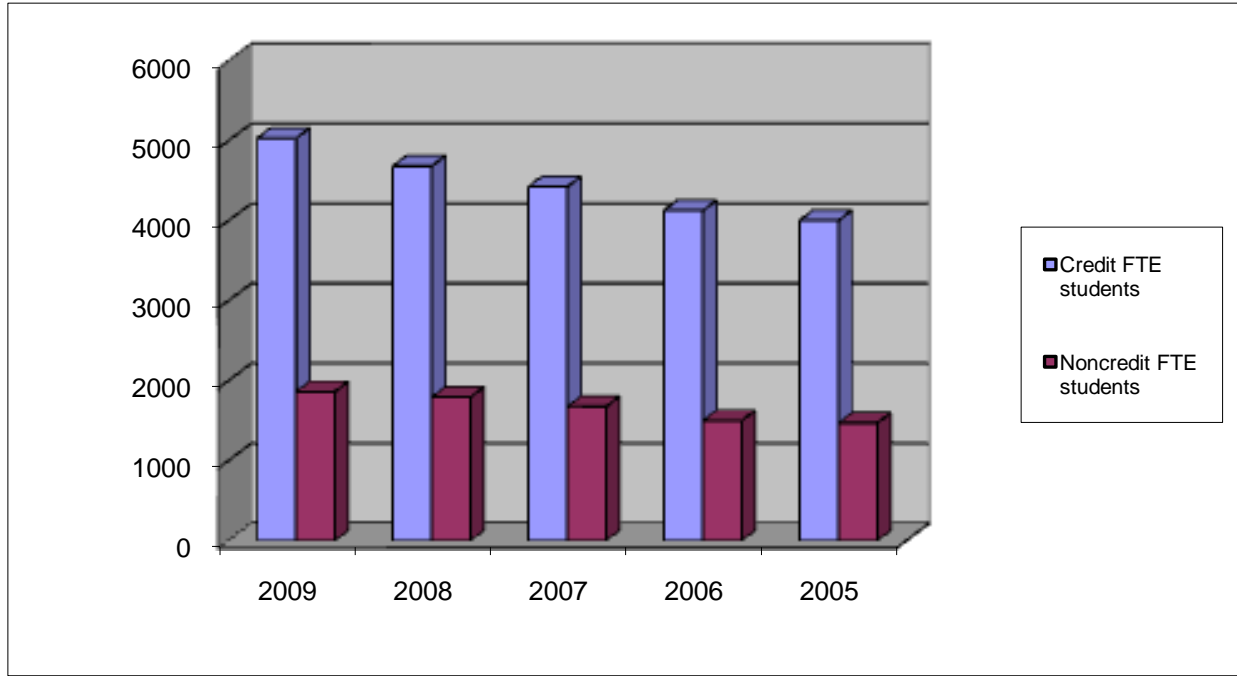
For the year-ended June 30, 2009, the college served approximately 11,771 credit and 17,467 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Educational Commission in terms of full-time equivalent students (FTES), which represent 30 hours of instruction. 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 4,825.93 and 1,436.93 FTES, respectively an increase of 7.65 percent. State-funded FTES do not include out-of-state students, employees who took classes, and other ineligible students determined by the state. Overall, credit FTES of 5,030.59 and noncredit FTES of 1,862.37 increased 7.4 percent and 3.8 percent, respectively. Together this number created a total increase in FTES for the year of 416.9 or 6.4 percent. The credit enrollment increase was higher than anticipated. The FY09 budget included only a 3 percent increase. The chart below shows total FTES as opposed to state-funded FTES for the years 2005 through 2009.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Enrollment Statistics and Analysis (continued)



	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Credit	5,030.59	4,682.13	4,425.10	4,127.83	4,004.10
Noncredit	1,862.37	1,793.93	1,676.16	1,501.51	1,472.00
Total FTES	<u>6,892.96</u>	<u>6,476.06</u>	<u>6,101.26</u>	<u>5,629.34</u>	<u>5,476.10</u>

As seen in the chart above, FTE growth was 25.9 percent for this five-year period. Enrollment growth continues to significantly exceed expectations. Credit enrollment is budgeted to grow 3 percent in FY10.

Economic Impact

The college's economic stability comes primarily from three revenue sources: tuition payments from students, 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 FY09 the actual unrestricted revenues were 36 percent (students), 33 percent (county), and 17 percent (state), respectively, with the final 14 percent coming from auxiliary and miscellaneous revenues. The students and Howard County Government have been increasing their share of operating costs over the past several years as the state share has declined.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Economic Impact (continued)

The county and state governments have wealthy tax bases and therefore have not been affected by the downturn in the global economy as significantly as other areas, but balancing the needs within the county and state during these very uncertain economic times is very challenging, and therefore impacts the college's funding. For FY09, the college received a 6.6 percent increase in its operating appropriation from Howard County Government. The state intended to increase the college's share of funding by 12.4 percent; however after budget cuts, a 7.8 percent was received. The state funds are distributed through the Cade funding formula, with the community colleges receiving a percentage of what the four-year institutions receive in funding from the state. Although a mid-year \$2 tuition increase was projected in order to balance the FY09 budget, excess tuition revenues earned as the result of HCC's higher than anticipated enrollment growth allowed the college to avoid implementing this tuition increase.

As evidenced in the enrollment statistics and the changing landscape of HCC's campus, growth and funding that growth remain the challenge facing the college today. Meeting student needs and expectations can only be accomplished by doing more with fewer resources. In FY09, budget cuts resulted in limited hiring, travel, and professional development of faculty and staff. 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, 2009

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF NET ASSETS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 25,124,946	\$ 24,533,514	\$ 591,432	2%
Tuition receivable, net	250,495	242,690	7,805	3%
Government grant receivable	592,054	730,787	(138,733)	-19%
State of Maryland capital receivable	6,987,150	4,357,883	2,629,267	60%
State of Maryland receivable	998,747	1,253,568	(254,821)	-20%
County capital receivable	304,107	1,948,033	(1,643,926)	-84%
Other accounts receivable	501,404	288,957	212,447	74%
Inventory	691,000	682,759	8,241	1%
Prepaid expenses	283,696	444,545	(160,849)	-36%
Total current assets	<u>35,733,599</u>	<u>34,482,736</u>	<u>1,250,863</u>	4%
Non-Current Assets				
Capital assets, net	<u>143,313,389</u>	<u>123,329,536</u>	<u>19,983,853</u>	16%
Total Assets	<u>179,046,988</u>	<u>157,812,272</u>	<u>21,234,716</u>	13%
LIABILITIES				
Current Liabilities				
Accounts payable	2,851,486	3,612,424	(760,938)	-21%
Accrued wages	1,171,486	1,137,794	33,692	3%
Accrued compensated absences	1,895,939	1,695,741	200,198	12%
Insurance liability	-	280,000	(280,000)	-100%
Payable to PGCC – joint venture	156,413	214,330	(57,917)	-27%
Payable to Howard County, (construction state)	6,816,326	8,900,482	(2,084,156)	-23%
Payable to federal government	-	148,263	(148,263)	-100%
Current portion of leases payable	90,952	111,544	(20,592)	-18%
Current portion of bond payable, Howard County	385,400	266,142	119,258	45%
Other payables	319,206	316,292	2,914	1%
Deposits	280,358	311,026	(30,668)	-10%
Agency funds	578,221	560,232	17,989	3%
Deferred revenue	2,607,047	2,726,131	(119,084)	-4%
Total Current Liabilities	<u>17,152,834</u>	<u>20,280,401</u>	<u>(3,127,567)</u>	-15%
Non-Current Liabilities				
Leases payable, net of current	56,457	147,504	(91,047)	-62%
Bond payable, Howard County, net of current	9,668,966	6,471,158	3,197,808	49%
Total non-current liabilities	<u>9,725,423</u>	<u>6,618,662</u>	<u>3,106,761</u>	47%
Total Liabilities	<u>26,878,257</u>	<u>26,899,063</u>	<u>(20,806)</u>	0%
NET ASSETS				
Invested in capital assets, net of related debt	132,688,053	109,596,470	23,091,583	21%
Restricted funds, expendable	652,942	652,531	411	0%
Unrestricted	18,827,736	20,664,208	(1,836,472)	-9%
Total Net Assets	<u>\$ 152,168,731</u>	<u>\$ 130,913,209</u>	<u>\$ 21,255,522</u>	16%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

As of June 30, 2009, total net assets increased 16 percent, or \$21,255,522. Capital assets, net of debt, increased by \$23,091,583. The value of net capital assets rises when new assets are capitalized, but is reduced by any increases in accounts payable/debt associated with those assets. The college capitalized additional net assets less depreciation of \$19,983,853 and increased accounts payable/debt associated with those assets by \$3,107,730. Unrestricted net assets decreased 9 percent, or \$1,836,472, primarily due to the decrease in the plant fund balance used to pay for property purchased by the college. A detailed schedule of those fund balances follows this section. In addition, restricted assets increased slightly.

The material change in the college's assets, which increased in total by 13 percent, was due primarily to the 16 percent increase in non-current capital assets. Construction projects and major purchases increased capital assets by \$24,756,020 less depreciation and loss on disposals of \$4,772,167. The breakdown by asset category can be found in footnote number 7 following the financial statements.

The 19 percent decrease in government grant receivables is due to the timing of the Pell grant draw down at the end of the year, resulting in a lower June 30 receivable from the federal government for this program. The 60 percent increase in the State of Maryland capital receivable was the result of the outstanding billings for state funds due on the Clark Library renovation. Currently, the state owes approximately \$6.2 million on that renovation, with the remaining balance due for work on the McCuan Hall renovation. The 84 percent decline in the county capital receivable is primarily from funds collected for outstanding construction invoices on the McCuan Hall project from fiscal 2008.

The State of Maryland receivable decline of 20 percent is due to payments received towards the statewide programs and manpower shortage programs receivables that had deficit funding appropriations in prior years. Other accounts receivable include the conference center receivables, non-government grant receivables, and other smaller miscellaneous funds due to the college. This increase of 74 percent or \$212,447 is due to slight increases in all of these receivables at year-end. The college expects to collect on these receivables; however, a reserve has been established for any uncertainties.

Prepaid expenses decreased 36 percent due to timing difference for annual service payments made for FY10 versus FY09.

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, 2009, at \$3,116,613, is also included. CIP projects include primarily the athletic fields' renovations, as well as the Belmont barn renovation, campus parking, and heating ventilation and air conditioning for the nursing building.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

Total college liabilities remained relatively constant from the same period last year. Material variances in current liabilities, which decreased 16 percent, include a decrease of 23 percent for accounts payable to Howard County. This reflects payment made by the state for expenses that the county had funded on its behalf, primarily for the McCuan Hall renovations and the conversion of the Horowitz Visual and Performing Arts Center debt to long-term bonds. The current portion of leases payable has declined 31 percent due to trailer lease that is paid off in March of next year. Accounts payable decreased 21 percent, primarily due to lower new construction payables due on June 30, 2009.

The 27 percent decrease in the payable to Prince George's Community College (PGCC) is for cost sharing at the Laurel College Center. Each year-end, revenues and expenses at the center are split 50/50 between HCC and PGCC. This year, HCC paid for equipment resulting in a higher portion of the expenses paid by HCC, reducing the payable. The insurance and federal liabilities were both paid during 2009 and no additional liability in those categories is anticipated as the county has assumed the health insurance liability (these funds were transferred to the county for this purpose) and the federal liability was a repayment of funds.

Under non-current liabilities, new bonds of \$3,583,208 were issued by the county on behalf of the college to fund the final cost of the Horowitz Visual and Performing Arts Center, increasing bonds payable by 51 percent. The 52 percent decrease in the Children's Learning Center (CLC) lease debt reflects a higher portion of the payments being applied to the principal as the lease enters its final two years.

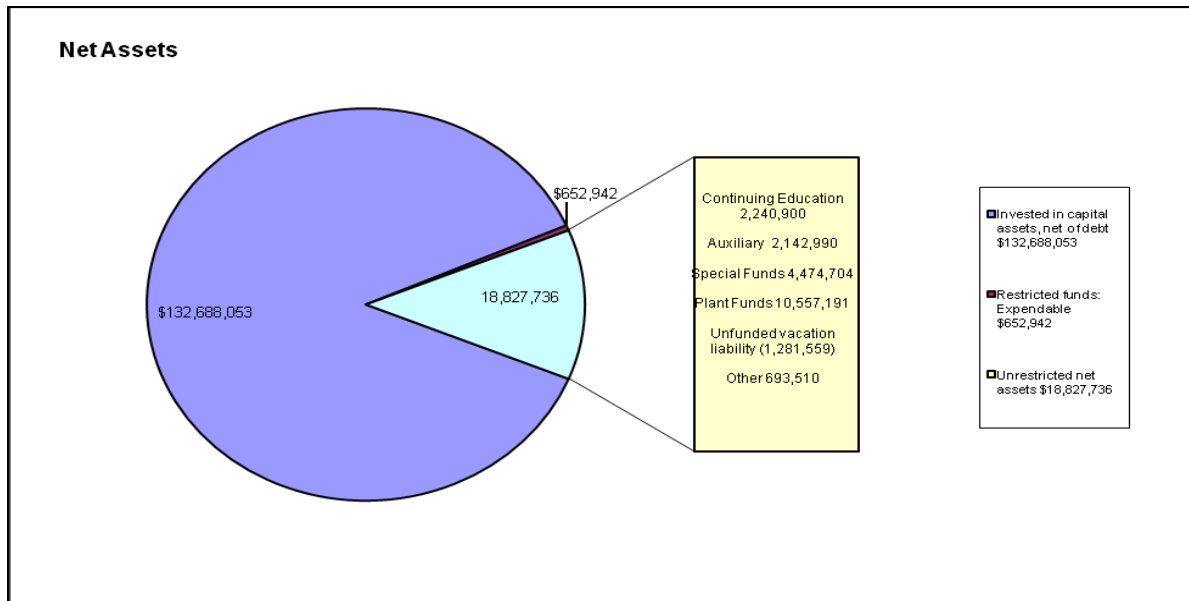
Unrestricted net assets are designated as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Variance</u>
Continuing education	\$ 2,240,900	\$ 1,495,796	\$ 745,104
Auxiliary enterprises	2,142,990	1,976,803	166,187
Special funds	4,474,704	4,238,590	236,114
Plant funds	10,557,191	14,034,380	(3,477,189)
Other	693,510	-	693,510
Unfunded vacation liability	(1,281,559)	(1,081,361)	(200,198)
Total unrestricted net assets	<u>\$ 18,827,736</u>	<u>\$ 20,664,208</u>	<u>\$ (1,836,472)</u>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)



Continuing Education

The continuing education division of the college generated 10 percent of the college's unrestricted revenues, netting \$1,301,131 over direct expenses of the division. The division incurred \$69,378 of indirect expenses within their budget, and funded \$486,649 of indirect expenses in the operating fund. This resulted in an overall increase in net assets of \$745,104. In this division, noncredit FTES totaled 1,862.37 and increased by 3.8 percent over FY09. Areas that experienced significant growth were the adult basic education program and contract training.

Auxiliary Services

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

Bookstore sales revenue grew 5 percent over last year while expenses grew 4 percent. Loss of textbook sales to online vendors is causing the sales increase to be lower than expected. The bookstore net profit for the year was \$259,315, which is 1 percent over last year. Profits were used to fund costs for the sunshine fund and fundraising initiatives, leaving \$160,785 to increase designated unrestricted net assets of the auxiliary fund.

Operating revenue of \$768,785 for the CLC was under budget by \$142,494 for the year. The expanded capacity was not completely filled due to some open slots held for students. Capacity was on average 87 percent during the year. In addition, support from the educational foundation was short of the budget by \$4,504. Expenses were under budget \$82,679 for the year to offset the revenue shortfall. In an attempt to maintain the \$85,117 fund balance for the coming year, additional funding of \$63,062 was provided from the operating fund to balance the budget.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

The CLC received funding support from the instructional area (\$40,000), the student services area (\$159,381), the bookstore (\$70,000), the Howard Community College Educational Foundation (\$25,001), and year-end funding (\$63,062). With the exception of the year-end funding, this annual support was budgeted and is required since the CLC is not expected to operate strictly on fees paid for services. Its goal is to provide flexible day care for students, helping to remove a barrier to attend college, as well as provide a training ground for the college's students in the early childhood education program.

The Belmont Conference Center was previously owned by the Howard Community College Educational Foundation, Inc. and managed by the college. During FY09, the transfer of the property from the foundation to the college occurred and the associated mortgage was paid in full using county capital project funds, foundation donations, and college funds reserved from fiscal 2008.

Operating revenue, including tuition and fees for classes held at Belmont and the facility-use fee from the college, totaled \$1,653,297, which decreased 3 percent from 2008. Non-operating revenue of \$56,672 to offset lease payments through November and a facility-use fee of \$150,000 were transferred to the conference center from the college. Operating expenses totaled \$1,656,284, which include upgrades, repairs, and maintenance to the property of \$36,746. The operations had a loss of \$2,987 for the year, which was less than the \$100,486 loss anticipated in the budget. Expenses were anticipated to be higher for the year; however, the center cut expenses to stay within budget.

Special Funds

Special funds are programs within the college that are primarily self-supporting. Some programs receive financial assistance from the operating budget. They include the Rep Stage, Laurel College Center (LCC), tutoring, Career Links, Project Access, the mediation center, core competencies, professional development, special projects and assignments, and the wellness program. The increase in net assets is primarily due to forward funding of these programs. In addition, approximately \$632,999 was transferred to special funds to pay for year-end items that will be received and paid for in FY10.

Plant Funds

Plant funds include construction projects such as major renovations to McCuan Hall, the Smith Theatre, the Clark Library building, the new parking deck design, and improvements to the athletic fields. Deferred maintenance projects also occur in this fund. The decrease in plant funds is due to the payment of funds held for the Belmont Conference Center purchase and the reduction of debt on the construction projects paid by the state.

Other and unfunded vacation liability

For the year ended June 30, 2009, as the college considered the economic uncertainties facing the state and county and the possibility of their impact on appropriations anticipated for 2010, the college reserved \$693,510 to maintain a fund balance in the operating fund. This, however, is offset by the deficit funding for the vacation liability of \$1,281,559.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Operating Revenue				
Student tuition and fees \$28,825,175, (net of discounts, allowances and financial aid \$5,267,551)	\$ 23,557,624	\$ 22,265,009	\$ 1,292,615	6%
Cultural, community and other programs	1,027,139	1,057,558	(30,419)	-3%
Auxiliary revenue, (net of financial aid \$632,035)	5,337,315	5,227,244	110,071	2%
Other operating revenue	423,229	442,192	(18,963)	-4%
Total operating revenue	<u>30,345,307</u>	<u>28,992,003</u>	<u>1,353,304</u>	5%
Operating Expenses				
Instruction	34,295,228	31,910,295	2,384,933	7%
Public service	520,866	376,736	144,130	38%
Academic support	4,971,475	4,077,258	894,217	22%
Student services	6,320,068	5,822,889	497,179	9%
Operation and maintenance of plant	7,299,633	6,402,426	897,207	14%
Institutional support	10,630,431	10,176,879	453,552	4%
Scholarships and related expenses	908,721	748,040	160,681	21%
Auxiliary enterprises	6,679,908	6,617,428	62,480	1%
Certain fringe benefits paid directly by the state	2,383,145	2,215,338	167,807	8%
Unallocated depreciation	4,772,167	4,453,400	318,767	7%
Total operating expenses	<u>78,781,642</u>	<u>72,800,689</u>	<u>5,980,953</u>	8%
Operating loss	<u>(48,436,335)</u>	<u>(43,808,686)</u>	<u>(4,627,649)</u>	11%
Non-operating Revenue (Expenses)				
Howard County Government appropriations	25,195,470	23,635,010	1,560,460	7%
State of Maryland appropriations	12,526,355	11,599,669	926,686	8%
State grants and contracts	1,671,503	1,722,376	(50,873)	-3%
Federal grants and contracts	5,177,559	4,258,087	919,472	22%
Local grants and contracts	118,155	25,700	92,455	360%
Other grants and contracts	1,417,956	827,276	590,680	71%
Certain fringe benefits paid directly by the state	2,383,145	2,215,338	167,807	8%
Investment income	367,634	999,473	(631,839)	-63%
Interest on debt to Howard County	(337,578)	(292,228)	(45,350)	-16%
Total Non-operating Revenue (Expenses)	<u>48,520,199</u>	<u>44,990,701</u>	<u>3,529,498</u>	8%
Income before capital appropriations	83,864	1,182,015	(1,098,151)	-93%
Capital appropriations from Howard County, State and other	<u>21,171,658</u>	<u>10,884,727</u>	<u>10,286,931</u>	95%
Increase in net assets	21,255,522	12,066,742	9,188,780	76%
Net assets, beginning of year	130,913,209	118,846,467	12,066,742	10%
Net Assets, End of Year	<u>\$ 152,168,731</u>	<u>\$ 130,913,209</u>	<u>\$ 21,255,522</u>	16%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

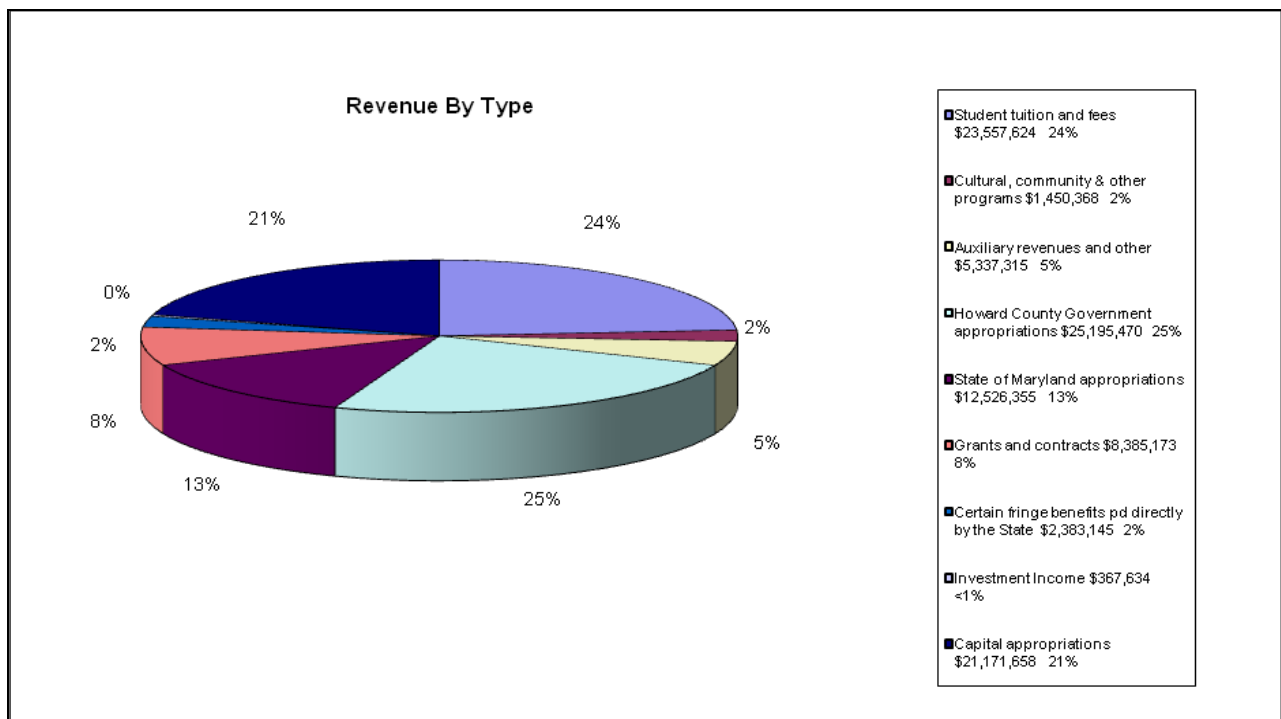
Financial Statement Highlights and Analyses (continued)

Operating Revenue

For the year-ended June 30, 2009, total operating revenue increased 5 percent, or \$1,353,304. Net (gross tuition and fees, less tuition amounts paid by financial assistance) tuition and fees increased by 6 percent due to the college's credit enrollment growth of 7.4 percent and noncredit enrollment growth of 3.8 percent.

Overall, cultural, community, and other program revenue was down 3 percent or \$30,419 when compared to last year. Revenue was down in Rep Stage due to lower contributions and tickets sales, which were impacted by the economy. The 4 percent decrease or \$18,963 in other operating revenue resulted from a reduction of revenue from Prince George's Community College related to the Laurel College Center.

Auxiliary revenue increased 2 percent over last year although sales from the college bookstore increased 5 percent for the period. Growth in bookstore revenue can be attributed to enrollment growth. Revenue from the Children's Learning Center increased 48 percent due to the expansion of the facility for the fall term and the planned fee increase of 3 percent. In addition, the Belmont Conference Center's revenue declined from last year by 3 percent due to economic conditions impacting the conference business. Food services revenue declined 70 percent or \$70,000 due to the Coca-Cola sponsorship funds having ended in 2008.



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

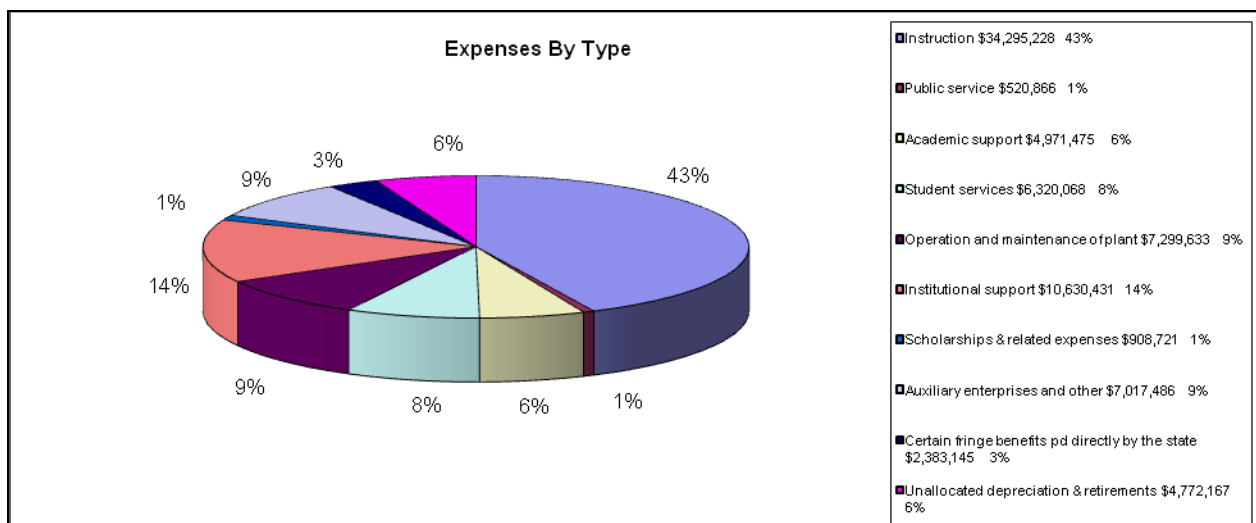
Operating Expenses

Operating expenses increased 8 percent or \$5,980,953 over last year. Staff salaries were increased, on average, 5 percent over the prior fiscal year. Seven (7) new full-time faculty and 6.96 new staff positions were hired to meet the demands of the college's growing enrollment and new facilities. Benefit costs rose approximately 8.4 percent in FY09.

The instructional and student services functions increased similarly to overall expenses, 7 percent and 9 percent, respectively. These expenses represent the direct cost of providing instruction and support services for students. Institutional support increased 4 percent, as positions and travel were limited due to economic conditions and the expectation of additional state cuts.

The public service function increased 38 percent due to the county's Government TV (GTV) operation moving to the college. Staffing increased as a result of this change. Academic support increased 22 percent due to the large number of computer upgrades completed throughout the campus. Scholarships and related expenses increased 21 percent due to the increase in both the number of students receiving awards and the average amount of the awards. Overall, 20 percent more students applied for financial aid. The average Pell award increased by 34 percent due to increases by the federal government and the college had a 13 percent increase in Pell recipients. 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. Operation and maintenance of plant experienced a 14 percent increase due to funds expended for maintenance and plant projects that were not be funded with county nor state capital appropriations.

Auxiliary expenses increased only 1 percent over the prior year as efforts were made to cut spending in these areas to conserve fund balances in anticipation of further state cuts.



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

Non-operating Revenue

Non-operating revenue increased 8 percent, or \$3,529,498. State, local, and grant appropriations are classified as non-operating revenue because they are considered non-exchange transactions.

Appropriations from the county increased to meet the college's needs by 7 percent or \$1,560,460. State support increased 8 percent, or \$926,686. State support for the year was originally based on 26.25 percent, and then reduced to 26 percent of the full-time equivalent rate received by the University System of Maryland. A further state reduction was made to the college of \$499,526 for fiscal 2009.

The 22 percent increase in federal grants and contracts reflects the increase in federal financial aid awards to students. Local grants and contracts are showing an increase of 360 percent or \$92,455, primarily due to a grant for the cable studio operations. Other grants and contracts increased 71 percent for \$590,680 primarily from the in-kind gift from the Howard Community Educational Foundation of \$426,036 for its interest in the Belmont Conference Center, which transferred to the college in November 2008. The slight reduction in state and other grants and contracts are due to the change in funding requests that vary from year to year.

Investment income decreased by 63 percent due to the dramatic decline in interest rates. The interest on debt to Howard County increased 16 percent, because of the new bonds issued during the year for the remaining debt of the Horowitz Center.

Capital Appropriations

Capital appropriations from Howard County government, the State of Maryland, and other sources, increased 95 percent. Funding for major renovations to McCuan Hall and the Clark Library building as well as the purchase of the Belmont Conference Center increased over FY08.

STATEMENTS OF CASH FLOWS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (41,688,686)	\$ (36,254,692)	\$ (5,433,994)	15%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing activities	45,698,494	41,970,960	3,727,534	9%
Cash Flows From Capital Financing Activities				
Net cash provided by capital financing activities	(3,786,010)	(2,950,745)	(835,265)	-28%
Cash Flows From Investing Activities				
Interest on investment	367,634	999,473	(631,839)	-63%
Net increase in cash and cash equivalents	591,432	3,764,996	(3,173,564)	-84%
Cash, beginning of the year	24,533,514	20,768,518	3,764,996	18%
Cash, End of Year	<u>\$ 25,124,946</u>	<u>\$ 24,533,514</u>	<u>\$ 591,432</u>	2%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Financial Statement Highlights and Analyses (continued)

The primary inflow of cash from operations continues to come from student tuition and fees. The primary outflows of cash from operations are supplier payments and employee compensation and benefits costs. This netted to an overall 15 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 9 percent is primarily due to increased revenue from the county and the state to support the college's operating budget. 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. Major renovation projects occurred during the year, which increased both inflows and outflows of cash for these projects. Additional long-term bond debt of \$3,583,208 to fund the Horowitz Visual and Performing Arts Center balance, and the interest and payments on bonds increased over the prior year. This increase resulted in net cash used by capital financing to increase 28 percent.

The college's investing cash flows come from investment income, which decreased 63 percent. This decrease was due to the decline in interest rates due to economic factors.

In 2009, net cash increased by \$591,432, and the college's cash balance as of June 30, 2009, was \$25,124,946. The college believes that its liquidity position as of June 30, 2009, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2009. 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 \$5,203,000 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.

For the first time in a number of years, the county developed a very lean budget in FY09. In spite of this situation, the college received one of the highest increases of any department at 6.6 percent for operations and 0.4 percent for GASB no. 45 for a total increase of 7.0 percent, demonstrating the County Executive's and county council's commitment to higher education.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Economic Factors that Will Affect the Future (continued)

Although the long-term outlook for Howard County remains strong, the county, the state, and the nation have experienced one of the most severe recessions ever faced. The collapse of the real estate market and the resulting credit crises has led to a general decline in consumer confidence. Income tax revenues are not expected to grow as fast as they have in the past and expenditures will have to be adjusted accordingly. The unstable economic conditions will continue to challenge both state and local government budgets for years to come, as the expected decline in tax revenue will take several years to work its way through the system. The two largest revenue sources in Howard County are property taxes and income taxes. While property taxes are expected to grow 4 percent each year, income taxes are on the decline and will remain static in FY10 and FY11. For fiscal 2010 many county agencies received reductions in their budgets; however, due to Maintenance of Effort requirements, the college did not receive a reduction, nor did it receive an increase. Howard County has one of the best school systems in the country and continues to be considered one of the top counties in the nation from an economic perspective. Once the BRAC development begins, revenue growth and long-term economic expansion should occur.

Unfortunately, the demands for additional spending, particularly in education and public safety, have not slowed. In addition, there is a requirement to begin funding the county's "Other Post Employment Benefits" (OPEB) according to a new accounting standard (GASB no. 45).

All levels of state government faced reductions in the FY09 state budget. In FY09, the community colleges were asked to return 4 percent of an 8 percent increase. This was the second consecutive year community colleges saw mid-year reductions from the state, although HCC was fortunate that the reductions were not higher. The final funding for FY10 saw a total increase of 4.9 percent to community colleges, which included statewide and health manpower programs and English for Speakers of Other Languages (ESOL). The Cade formula increased by 3.8 percent. For Howard Community College, this state funding translated into a 5.6 increase due to its enrollment growth. In addition, the "true up" was incorporated in to the final bill for community colleges, meaning that the funding per FTE would be based on the appropriation to the 10 four-year institutions in the same year as the budget, rather than the prior year as the law previously required. This would not change the two-year lag on community college enrollments, but would eliminate the one-year lag on the four-year funding. As part of the bill, the maximum formula funding is now 29 percent and not 30 percent as previously included in the legislation and this 29 percent will not be reached until FY14. Even though the session ended on a high note for community colleges, it is understood that the state now has over \$200 million in reductions to make from the FY10 budget, which led to a third year of reductions. With the anticipation of additional cuts in state aid in FY10, the college continues to be prudent in its spending practices and may need to reduce spending in FY10 if additional cuts occur.

The college has experienced significant growth in FTES over the past several years. In FY09, overall FTE growth was 6.4 percent and over the past five year's growth of 25.9 percent occurred. The highest portion of credit students are in the 18-23 year old age group, with transfer programs being the largest area of growth. Credit enrollment is projected to continue to grow at the rate of 3 percent a year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2009

Economic Factors that Will Affect the Future (continued)

During the college's budget process, the first areas to be addressed continue to be indicators relating to the *percentage of expenditures on instruction* and the *percentage of expenditures on selected academic support*. For the second consecutive year, HCC's tuition rate of \$114 per credit hour will remain the same for fall 2009. HCC's indicator for *tuition and fees as a percentage of tuition and fees at Maryland public four-year institutions* at 56 percent moved toward the benchmark level of 55 percent this year.

To help manage growth and its accompanying challenges, the college continues efforts to improve through self-assessment. In 2008, HCC was the first Maryland community college to receive Maryland's distinguished U.S. Senate Productivity Award, which is the highest award for performance excellence given to any Maryland business or organization. No organization received this honor in 2009. In 2008, HCC was a finalist for the Baldrige award, receiving a site visit, and continues to work on process improvements in all areas. The college has submitted another Baldrige application for 2009.

HOWARD COMMUNITY COLLEGE

Statements of Net Assets As of June 30, 2009

	<u>Howard Community College</u>	<u>Howard Community College Educational Foundation, Inc.</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 25,124,946	\$ 1,123,558
Investments and interest in irrevocable trust		4,450,209
Tuition and other receivable, net of allowance of \$1,115,092	751,899	
Federal, state, local and other receivables	8,882,058	
Contributions receivable, net of allowance of \$6,400		1,594,205
Capital lease receivable		134,312
Inventory	691,000	
Prepaid expenses and other assets	283,696	6,541
Total current assets	<u>35,733,599</u>	<u>7,308,825</u>
Non-current Assets		
Capital assets, net	<u>143,313,389</u>	
Total Assets	<u>179,046,988</u>	<u>7,308,825</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	4,342,178	9,868
Accrued compensated absences	1,895,939	
Payable to PGCC - joint venture	156,413	
Payable to Howard County for construction	6,816,326	
Leases and note payable, current portion	90,952	77,855
Bonds payable, Howard County, current portion	385,400	
Deposits	280,358	
Agency funds	578,221	
Deferred revenue	2,607,047	64,530
Total current liabilities	<u>17,152,834</u>	<u>152,253</u>
Non-current Liabilities		
Leases and note payable, net of current portion	56,457	56,457
Bonds payable, Howard County, net of current portion	9,668,966	
Total non-current liabilities	<u>9,725,423</u>	<u>56,457</u>
Total Liabilities	<u>26,878,257</u>	<u>208,710</u>
NET ASSETS		
Invested in capital assets, net of related debt	132,688,053	
Restricted funds: Expendable	652,942	
Unrestricted	18,827,736	630,024
Temporarily restricted		1,786,778
Permanently restricted		4,683,313
Total Net Assets	<u>\$ 152,168,731</u>	<u>\$ 7,100,115</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, 2009

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees, (net of discounts, allowances and financial aid \$5,267,551)	\$ 23,557,624	\$
Cultural, community, and other programs	1,027,139	
Auxiliary revenue, (net of financial aid of \$632,035)	5,337,315	
Other	423,229	
Contributions, including in-kind		2,062,114
Special events		519,708
Total Operating Revenue	30,345,307	2,581,822
Operating Expenses		
Instruction	34,295,228	
Public service	520,866	
Academic support	4,971,475	
Student services	6,320,068	
Operation and maintenance of plant	7,299,633	
Institutional support	10,630,431	412,252
Scholarships and related expenses	908,721	
Program expenses		2,088,622
Cost of direct benefits to donors		250,229
Fundraising		165,926
Auxiliary enterprises	6,679,908	
Certain fringe benefits paid directly by the State	2,383,145	
Unallocated depreciation and loss on asset disposal	4,772,167	51,430
Total Operating Expenses	78,781,642	2,968,459
Operating Loss	(48,436,335)	(386,637)
Non-Operating Revenue (Expenses)		
Howard County government appropriations	25,195,470	
State of Maryland appropriations	12,526,355	
Federal, state, local and other grants and contracts	8,385,173	
Certain fringe benefits paid directly by the State	2,383,145	
Investment income	367,634	72,490
Net realized and unrealized loss on investments		(1,259,113)
Interest expense	(337,578)	(81,187)
Net non-operating revenue (expenses)	48,520,199	(1,267,810)
Income (loss) before capital appropriations	83,864	(1,654,447)
Capital appropriations	21,171,658	
Increase (decrease) in net assets	21,255,522	(1,654,447)
Net assets, beginning of year	130,913,209	8,754,562
Net Assets, End of Year	\$ 152,168,731	\$ 7,100,115

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows For the Year Ended June 30, 2009

	Howard Community College
Cash Flows From Operating Activities	
Tuition and fees	\$ 23,581,174
Payments to suppliers	(19,184,910)
Payments to employees	(42,240,940)
Payments for employee benefits	(10,631,693)
Auxiliary enterprises	5,337,315
Other receipts	1,450,368
Net Cash From Operating Activities	(41,688,686)
 Cash Flows From Non-Capital Financing Activities	
State appropriations	12,526,355
Local appropriations	25,195,470
Grant and contracts	7,958,680
Student loan receipts	3,612,590
Student loan disbursements	(3,612,590)
Agency funds receipts	926,916
Agency funds disbursements	(908,927)
Net Cash From Non-capital Financing Activities	45,698,494
 Cash Flows From Capital Financing Activities	
Capital appropriations	18,102,161
Bond proceeds	3,583,208
Purchase of capital assets	(24,756,020)
Interest expense payments	(337,578)
Principal payments on bonds, notes and capital leases	(377,781)
Net Cash From Capital Financing Activities	(3,786,010)
 Cash Flows From Investing Activities	
Interest on investments	367,634
 Net increase in cash and cash equivalent	591,432
Cash and cash equivalents, beginning of year	24,533,514
Cash and Cash Equivalents, End Of Year	\$ 25,124,946

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows (continued) For the Year Ended June 30, 2009

	Howard Community College
Reconciliation of Net Operating Loss To Net Cash From Operating Activities	
Operating loss	\$ (48,436,335)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense and loss on asset disposal	4,772,167
In-kind contributions	426,493
Amounts paid directly by the state	2,383,145
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	173,302
Inventory	(8,241)
Prepaid and other assets	160,849
Accounts and other payables	(1,241,180)
Deferred revenue	(119,084)
Compensated absences	200,198
Net Cash From Operating Activities	\$ (41,688,686)

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

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 2009, 79.0 percent of the college's credit student populations are Howard County residents. The college is fully accredited by the Middle States Association of Colleges and Secondary Schools and by the Maryland Department of Education to offer programs of learning and to award associate degrees and certificates of proficiency.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

GASB statement no. 34 identified three types of special-purpose governments (SPG): (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, 2009

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 (BTA). 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) standards, including FASB statement no. 117, entitled *Financial Reporting for Non-for-Profit Organizations*. 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, 2009

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 Statements 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 the collection agency. The college has established a valuation allowance for the tuition receivable it estimates as uncollectible. As of June 30, 2009, the net tuition receivable was \$250,495. Included in other receivables are amounts collectible for the Belmont Conference Center, food services, bookstore credit memos, and other miscellaneous receivables.

Contributions Receivable

The foundation's contributions receivable represent unconditional promises to give from various contributors including individual, local business, and state and local governments. There is a \$6,400 allowance for uncollectible accounts recorded as of June 30, 2009. Management believes that the balance of contributions receivable is fully collectible.

Contributions receivable are recorded at the donated amount discounted for when it is expected to be collected, which was calculated using a discount rate of 2.54 percent based on projected U.S. Treasury bill rates, as of June 30, 2009. 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, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

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

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

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

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

Accrued Compensated Absences

Accrued compensated absences of the college are accrued at the end of the year for financial statement purposes. Accrued compensated absences of \$1,895,939, as of June 30, 2009, are shown on the statement of net assets.

Agency Funds

Funds held by the college as custodian or fiscal agent for others, such as student organizations used to support various student activities not directly related to instructional activities, are accounted for as agency funds. The funds held for others are recorded as a liability on the statement 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, 2009

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, 2009, 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 \$652,942 represent grants given to the college for a specific use, designated by the grantor. The unrestricted balance of \$18,827,736 represents auxiliary enterprise funds of \$2,142,990, continuing education funds of \$2,240,900, cultural, community, theatre and other funds of \$5,168,212, and \$10,557,193 designated for construction and debt repayment, net of \$1,281,559 of unfunded vacation liability.

The investment in capital assets of \$132,688,053 is net of related debt that includes the bond debt to Howard County of \$10,054,366, the lease payable on the Children's Learning Center of \$134,312, the lease for the portable classrooms \$13,097, and outstanding payables related to construction projects as of June 30, 2009, of \$423,561.

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 conduct of service or 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 Changes in Net Assets.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

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

Revenue Recognition

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

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

Certain aid such as loans and third-party payments are credited to the student's account as if the student made the payment. For the year ended June 30, 2009, the college netted expenses in the amount of \$5,899,586, reducing tuition revenue by \$5,267,551, and bookstore scholarships, and childcare tuition, in auxiliary enterprise revenue by \$632,035.

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 gallery, 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, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Components

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

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

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

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

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

In-Kind Contributions

The foundation receives contributions of various services from non-related sources. These contributions and their related expenses are reported at fair value in the period the services are performed. The estimated fair value of these contributions for the year ended June 30, 2009, was \$227,294. Additionally, the foundation receives in-kind support from the college consisting of personnel, legal, and office costs. The estimated value of these services for the year ended June 30, 2009, was \$330,383. The college also paid interest on the note payable for the Belmont Conference Center. This amounted to \$56,672 as of June 30, 2009, and is included in interest expense on the Statement of Revenues, Expenses, and Changes in Net Assets. This note was paid off in November 2008.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

Advertising expense of the foundation (including in-kind contributions) for the year ended June 30, 2009, was \$165,926.

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, 2009, GASB issued statement no. 54, entitled *Fund Balance Reporting and Governmental Fund Type Definitions*; statement no. 55, entitled *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and statement no. 56, entitled *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*. The college is analyzing the effects of these pronouncements and plans to adopt or has adopted them as applicable by their effective dates.

3. CASH AND CASH EQUIVALENTS

A. Cash on Hand

As of year-end, petty cash on hand and change funds totaled \$13,435.

B. Deposits

As of year-end, the carrying amount of the college's deposits was \$607,398 and the bank balance was \$1,551,835. The deposits of the college were not exposed to custodial credit risk as of June 30, 2009. The operating account is federally insured up to \$100,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$100,000 are collateralized by a surety bond with a market value of \$10,000,000 as of June 30, 2009. The bond is held by the bank's agent in the college's name.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

3. CASH AND CASH EQUIVALENTS (continued)

C. Investments

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

As of June 30, 2009, the college's investment balance consisted of \$24,504,113 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 13,435
Carrying amount of deposits	607,398
Carrying amount of MLGIP	24,504,113
Total cash and cash equivalents	<u><u>\$25,124,946</u></u>

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, 2009, 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, 2009, met the college's investment policy as of that date.

Investment income includes interest and dividends in the amount of \$367,634 for the year ended June 30, 2009.

Credit Risk

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

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, 2009.

4. INVESTMENTS OF THE FOUNDATION

The foundation's investments as of June 30, 2009, are summarized as follows:

	2009		
	Cost	Market	Unrealized Gain (Loss)
Mutual funds	\$ 1,091,466	\$ 1,044,243	\$ (47,223)
Interest in external investment pool	4,888,818	3,318,704	(1,570,114)
Interest in irrevocable trust	87,262	87,262	-
Total	\$ 6,067,546	\$ 4,450,209	\$ (1,617,337)

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2009, include the following unconditional promises to give:

Due in:	Amounts
Less than one year	\$ 642,775
One to seven years	1,020,957
	1,663,732
Less: discount	63,127
allowance for uncollectible accounts	6,400
Total	\$ 1,594,205

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

6. CAPITAL LEASES RECEIVABLE/PAYABLE

The college entered into a capital lease agreement with the foundation for the lease of the Children's Learning Center. Under this agreement, the college has agreed to pay all required debt service until the underlying note is repaid. The required lease payments are as follows:

<u>Due in:</u>	<u>Amounts</u>
2010	\$ 85,593
2011	64,195
Total	149,788
Less: interest portion	15,476
Present value of lease payments	\$ 134,312

The college also entered into a lease purchase for modular classrooms. The outstanding liability on the lease is \$13,097, all of which is current. The lease will be paid in full in 2010. Interest in 2010 will be \$172.

7. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for year ended June 30, 2009:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>
Land	\$ 364,581	\$ 1,714,124	\$	\$ 2,078,705
Land improvements	1,944,803			1,944,803
Buildings	110,001,977	3,379,818		113,381,795
Building renovations	21,013,644	27,889,510		48,903,154
Furniture and equipment	10,399,736	1,551,968	1,194,350	10,757,354
Library books	1,913,091	37,080		1,950,171
Leasehold improvements	2,208,335	(254,251)		1,954,084
Total	147,846,167	34,318,249	1,194,350	180,970,066
Less: accumulated depreciation	37,195,473	4,746,742	1,168,925	40,773,290
Assets, net of depreciation	110,650,694	29,571,507	25,425	140,196,776
Construction in progress	12,678,842		9,562,229	3,116,613
Total	\$ 123,329,536	\$ 29,571,507	\$ 9,587,654	\$ 143,313,389

On November 18, 2009, the foundation contributed its net investment in the Belmont Conference Center and deferred financing costs, \$4,843,938 less the debt on the property of \$4,431,900, to the college, which netted \$412,038. Depreciation expense in FY09 was \$49,841.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

8. BOND LIABILITY TO HOWARD COUNTY AND NOTE PAYABLE

The college is indebted to the county for bond issues in the amount of \$10,054,366 as of June 30, 2009, 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 4.0 percent to 5.0 percent. The debt and interest payments in the future are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 348,000	\$ 473,067
2011	365,918	456,184
2012	381,288	441,699
2013	396,187	427,232
2014	412,093	411,223
Thereafter	8,113,480	3,162,698
Total	<u>\$ 10,016,966</u>	<u>\$ 5,372,103</u>

Changes in the college's long-term liabilities for the year ended June 30, 2009, are as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Amounts Due in One Year</u>
Lease payable	\$ 50,777	\$ -	\$ 37,680	\$ 13,097	\$ 13,097
Lease payable	208,271	-	73,959	134,312	77,855
Bond payable	74,800	-	37,400	37,400	37,400
Bond payable	6,737,300	3,583,208	303,542	10,016,966	348,000
	<u>\$ 7,071,148</u>	<u>\$ 3,583,208</u>	<u>\$ 452,581</u>	<u>\$ 10,201,775</u>	<u>\$ 476,352</u>

The college is also indebted to the county in the amount of \$37,400 as of June 30, 2009, for its share of construction costs of the Burrill Galleria. Payments are due through 2010 at interest rates ranging from 6.9 percent to 7.0 percent. As of June 30, 2009, the future debt and interest payments are \$37,400 of principal and \$2,618 of interest in fiscal 2010.

As of June 30, 2009, the foundation had debt for the construction of the Children's Learning Center. The terms of this debt are as follows:

In March 2001, the foundation obtained a bank loan to finance the construction of the Children's Learning Center. The loan bears interest at 6.61 percent. The foundation is required to make monthly principal and interest payments of \$7,133 through March 2011. Interest incurred and paid for the year ended June 30, 2009, was \$11,634. The notes payable balance as of June 30, 2009, for the Children's Learning Center note was \$134,312.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

8. BOND LIABILITY TO HOWARD COUNTY AND NOTE PAYABLE (continued)

The future minimum principal payments on notes payable are as follows as of June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 77,855
2011	56,457
Total	<u>\$ 134,312</u>

9. RESTRICTED NET ASSETS

Temporarily restricted net assets of the foundation of \$1,786,778 as of June 30, 2009, 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 \$4,683,313 as of June 30, 2009, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships.

10. 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 \$43,176,958. The payroll of employees covered by either the Maryland State Retirement and Pension Systems or an ORP, was \$31,916,033.

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

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

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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

10. RETIREMENT BENEFITS (continued)

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>Fiscal Year</u> <u>Ending June 30,</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2007	\$ 299,962	100%	-
2008	412,097	100%	-
2009	409,754	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, 2009, the state paid \$2,383,145 in retirement costs, equal to approximately 7.5 percent of the covered payroll costs. The college's share of retirement costs for other employees was calculated based on the accrued benefit cost method.

11. 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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

11. RISK MANAGEMENT (continued)

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

The college makes payments to the county based on the premiums established by the county based on a combination of actuarial estimates and historical cost information. The college has no liability for covered claims other than paying the premium established by the county. The amount paid and expensed during the year ended June 30, 2009, was \$60,600.

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 \$4,452,146 for the year ended June 30, 2009.

12. 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, 2009, the college provided \$330,383 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$379,077 in scholarships awarded to students and \$1,709,545 in non-scholarship benefits to the college in support of college programs and other services. This figure includes in-kind contributions. These non-scholarship benefits include grants and contributions of the Belmont Conference Center.

The college entered into a ground lease of approximately one acre of land to the foundation in order for the foundation to construct a college-operated childcare facility. The lease ends June 2019 and the foundation pays the college annual ground rent of \$1.

The college paid the foundation \$85,593 in lease payments for the use of the childcare facility for the fiscal year ended June 30, 2009. The foundation uses these payments to pay the debt service on the loan for the childcare facility.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2009

12. RELATED PARTY TRANSACTIONS (continued)

On November 19, 2004, the college entered into a lease agreement with the foundation for the rental of the Belmont Conference Center. On November 18, 2008, the foundation transferred its interest in the property to the college and the debt was paid at settlement. Prior to the sale, rent expense was \$56,672 for the year ended June 30, 2009. The college also paid \$6,553 of legal fees on behalf of the foundation.

For FY2008, Howard County Government appropriated \$2,200,000 in funds for the acquisition of the Belmont conference Center and \$2,820,000 for renovations to the property. No funds were able to be expended for the acquisition of the property unless the documents that acquired the property provided Howard County Government a right of first refusal to purchase the property at fair market value, less expenditures made by the County through project M-0537, subject to the discretion of the County Executive. The purchase of the property occurred on November 18, 2009 and the deed does contain this language, by which the college will abide. Through June 30, 2009, the county has spent \$2,610,812 on Capital Project M-05237. 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 operating budget.

13. 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, 2009, the college included \$40,893 and \$156,413 in revenue and instructional operating expenses, respectively, in the statement of revenue, expenses, and changes in net assets.

As part of the joint venture agreement, the college and PGCC entered into a noncancelable 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, 2009, was \$361,906.

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

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 351,108
2011	361,641
2012	60,568
Total	<u>\$ 773,317</u>

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2009

14. COMMITMENTS AND CONTINGENCIES

Contingencies

In the normal course of business, the college becomes involved in legal actions. These matters are currently in various stages. At this time, neither management nor legal counsel can predict the outcomes with certainty; however, management does not believe the ultimate outcome of these legal actions will be material to the June 30, 2009, financial statements.

Capital Projects

As of June 30, 2009, the college has commitments of approximately \$5,203,000 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.

15. 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.

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. The county makes the college's ARC on its behalf each year.