

**HARRISBURG AREA COMMUNITY
COLLEGE FOUNDATION
Harrisburg, Pennsylvania**

**FINANCIAL STATEMENTS
June 30, 2012 and 2011**

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Directors
Harrisburg Area Community College Foundation
Harrisburg, Pennsylvania

We have audited the accompanying statements of financial position of the Harrisburg Area Community College Foundation as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Harrisburg Area Community College Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harrisburg Area Community College Foundation as of June 30, 2012 and 2011, and the changes in its net assets, functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'CliftonLarsonAllen LLP'.

Harrisburg, Pennsylvania
November 6, 2012

FINANCIAL STATEMENTS

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 1,260,072	\$ 916,846
Accrued interest receivable	26,409	30,630
Prepaid expenses	2,118	4,333
Contributions receivable, net	2,997,627	3,678,170
Investments	<u>27,837,424</u>	<u>27,443,777</u>
TOTAL ASSETS	<u>\$ 32,123,650</u>	<u>\$ 32,073,756</u>
LIABILITIES		
Deferred revenue	\$ 34,000	\$ 61,500
Due to Harrisburg Area Community College	<u>320,487</u>	<u>148,897</u>
Total liabilities	<u>354,487</u>	<u>210,397</u>
NET ASSETS		
Unrestricted	733,274	1,142,817
Unrestricted - board designated	<u>976,555</u>	<u>983,855</u>
Total unrestricted	<u>1,709,829</u>	<u>2,126,672</u>
Temporarily restricted	14,222,661	13,857,587
Permanently restricted	<u>15,836,673</u>	<u>15,879,100</u>
Total net assets	<u>31,769,163</u>	<u>31,863,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,123,650</u>	<u>\$ 32,073,756</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions and grants	\$ 94,405	\$ 1,812,977	\$ 473,920	\$ 2,381,302
Contributions in-kind	427,447	-	-	427,447
Investment income	69,075	205,931	363,315	638,321
Realized and unrealized losses	(61,563)	(204,257)	(334,687)	(600,507)
4% total return policy	-	544,975	(544,975)	-
Net assets released from restriction	<u>1,994,552</u>	<u>(1,994,552)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>2,523,916</u>	<u>365,074</u>	<u>(42,427)</u>	<u>2,846,563</u>
EXPENSES				
Program Services				
Scholarships and awards	823,054	-	-	823,054
Special initiatives	22,900	-	-	22,900
Other endowment programs	489,559	-	-	489,559
Capital programs	<u>869,021</u>	<u>-</u>	<u>-</u>	<u>869,021</u>
Total program services	<u>2,204,534</u>	<u>-</u>	<u>-</u>	<u>2,204,534</u>
Supporting Services				
Management and general	407,271	-	-	407,271
Fundraising	<u>328,954</u>	<u>-</u>	<u>-</u>	<u>328,954</u>
Total supporting services	<u>736,225</u>	<u>-</u>	<u>-</u>	<u>736,225</u>
Total expenses	<u>2,940,759</u>	<u>-</u>	<u>-</u>	<u>2,940,759</u>
CHANGE IN NET ASSETS	(416,843)	365,074	(42,427)	(94,196)
NET ASSETS, BEGINNING OF YEAR	<u>2,126,672</u>	<u>13,857,587</u>	<u>15,879,100</u>	<u>31,863,359</u>
NET ASSETS, END OF YEAR	<u>\$ 1,709,829</u>	<u>\$ 14,222,661</u>	<u>\$ 15,836,673</u>	<u>\$ 31,769,163</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions and grants	\$ 96,124	\$ 3,290,194	\$ 436,707	\$ 3,823,025
Contributions in-kind	132,703	-	-	132,703
Investment income	41,575	200,692	301,575	543,842
Realized and unrealized gains	512,252	1,386,959	2,316,972	4,216,183
4% total return policy	-	485,264	(485,264)	-
Net assets released from restriction	<u>1,599,151</u>	<u>(1,599,151)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>2,381,805</u>	<u>3,763,958</u>	<u>2,569,990</u>	<u>8,715,753</u>
EXPENSES				
Program Services				
Scholarships and awards	899,091	-	-	899,091
Special initiatives	58,885	-	-	58,885
Other endowment programs	362,569	-	-	362,569
Capital programs	<u>365,558</u>	<u>-</u>	<u>-</u>	<u>365,558</u>
Total program services	<u>1,686,103</u>	<u>-</u>	<u>-</u>	<u>1,686,103</u>
Supporting Services				
Management and general	510,935	-	-	510,935
Fundraising	<u>343,794</u>	<u>-</u>	<u>-</u>	<u>343,794</u>
Total supporting services	<u>854,729</u>	<u>-</u>	<u>-</u>	<u>854,729</u>
Total expenses	<u>2,540,832</u>	<u>-</u>	<u>-</u>	<u>2,540,832</u>
CHANGE IN NET ASSETS	(159,027)	3,763,958	2,569,990	6,174,921
NET ASSETS, BEGINNING OF YEAR	<u>2,285,699</u>	<u>10,093,629</u>	<u>13,309,110</u>	<u>25,688,438</u>
NET ASSETS, END OF YEAR	<u>\$ 2,126,672</u>	<u>\$ 13,857,587</u>	<u>\$ 15,879,100</u>	<u>\$ 31,863,359</u>

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

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program Services				Supporting Services		Total
	Scholarships and Awards	Special Initiatives	Other Endowment Programs	Capital Programs	Management and General	Fund- Raising	
Salaries	\$ -	\$ -	\$ -	\$ -	\$ 240,187	\$ 51,124	\$ 291,311
Fringe benefits & payroll taxes	-	-	-	-	96,689	15,202	111,891
 Total salaries and related expenses	-	-	-	-	336,876	66,326	403,202
 Scholarships and awards	823,054	-	-	-	-	-	823,054
Capital expenditures	-	-	-	864,021	-	-	864,021
Special initiatives	-	22,900	-	-	-	-	22,900
Other endowment disbursements	-	-	489,559	-	-	-	489,559
Postage	-	-	-	-	4,472	-	4,472
Telephone	-	-	-	-	240	171	411
Printing	-	-	-	-	7,162	7,859	15,021
Supplies	-	-	-	-	4,840	31,852	36,692
Advertising	-	-	-	-	750	2,984	3,734
Professional fees	-	-	-	-	19,698	200,716	220,414
Meeting expenses	-	-	-	-	13,219	14,176	27,395
Travel and training	-	-	-	-	7,170	1,257	8,427
Subscriptions and memberships	-	-	-	-	2,513	-	2,513
Special events	-	-	-	-	7,949	3,245	11,194
Transferred to HACC	-	-	-	5,000	-	-	5,000
Miscellaneous	-	-	-	-	2,382	368	2,750
 TOTAL EXPENSES	 \$ 823,054	 \$ 22,900	 \$ 489,559	 \$ 869,021	 \$ 407,271	 \$ 328,954	 \$ 2,940,759

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

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011

	Program Services				Supporting Services		Total
	Scholarships and Awards	Special Initiatives	Other Endowment Programs	Capital Programs	Management and General	Fund- Raising	
Salaries	\$ -	\$ -	\$ -	\$ -	\$ 251,988	\$ 60,820	\$ 312,808
Fringe benefits & payroll taxes	-	-	-	-	122,391	20,743	143,134
Total salaries and related expenses	-	-	-	-	374,379	81,563	455,942
Scholarships and awards	899,091	-	-	-	-	-	899,091
Capital expenditures	-	-	-	355,558	-	-	355,558
Special initiatives	-	58,885	-	-	-	-	58,885
Other endowment disbursements	-	-	362,569	-	-	-	362,569
Postage	-	-	-	-	6,410	96	6,506
Telephone	-	-	-	-	419	761	1,180
Printing	-	-	-	-	12,751	6,322	19,073
Supplies	-	-	-	-	5,376	20,029	25,405
Advertising	-	-	-	-	482	-	482
Professional fees	-	-	-	-	43,525	156,212	199,737
Meeting expenses	-	-	-	-	17,136	54,423	71,559
Travel and training	-	-	-	-	10,780	1,919	12,699
Subscriptions and memberships	-	-	-	-	7,222	200	7,422
Special events	-	-	-	-	13,704	7,387	21,091
Transferred to HACC	-	-	-	10,000	17,361	-	27,361
Miscellaneous	-	-	-	-	1,390	14,882	16,272
TOTAL EXPENSES	\$ 899,091	\$ 58,885	\$ 362,569	\$ 365,558	\$ 510,935	\$ 343,794	\$ 2,540,832

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

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (94,196)	\$ 6,174,921
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	600,507	(4,216,183)
Collection of contributions restricted for long-term purposes	(473,920)	(436,707)
Effects of changes in operating assets and liabilities:		
Contributions receivable	680,543	(1,184,550)
Interest receivable	4,221	23,448
Prepaid expenses	2,215	(2,391)
Deferred revenue	(27,500)	(12,900)
Due to Harrisburg Area Community College	<u>171,590</u>	<u>(8,136)</u>
Net cash provided by operating activities	<u>863,460</u>	<u>337,502</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(17,468,492)	(47,469,377)
Proceeds from sale/maturities of investments	<u>16,474,338</u>	<u>47,207,680</u>
Net cash used in investing activities	<u>(994,154)</u>	<u>(261,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for long-term purposes	<u>473,920</u>	<u>436,707</u>
Net increase in cash and cash equivalents	343,226	512,512
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>916,846</u>	<u>404,334</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 1,260,072</u>	<u>\$ 916,846</u>

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

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Harrisburg Area Community College Foundation (the Foundation) was formed under the non-profit corporation law of the Commonwealth of Pennsylvania in June 1985. The Foundation was organized for the purpose of receiving gifts, grants, and bequests, and to distribute the available funds to, or for the benefit of, Harrisburg Area Community College (the College).

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the statement of financial position and revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all unrestricted, highly liquid investments available for current use with an initial maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Both realized and unrealized gains and losses in fair value are reflected in the statement of activities.

Market Risks

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

Concentrations

The Foundation maintains its bank deposit accounts at local financial institutions. At times, the balances may exceed federally insured limits, which management considers to be a normal business risk.

The Foundation is supported primarily through donations and investment returns. Loss or reduction of these funding sources could have a significant impact on the Foundation's operations.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions of temporarily restricted net assets that are received and expended in the same fiscal year are treated as temporarily restricted revenue and net assets released from restriction in that year.

Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period the promises are received and as assets or decreases of liabilities, depending on the form of the benefits received. Payments to be received in periods beyond one year are reflected at their present value based on a risk-free discount rate. The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance is based on historical collection experience and management's analysis of specific promises made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at June 30, 2012 and 2011.

Net Assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are the portion of net assets that are neither temporarily nor permanently restricted by donor stipulations on their use. Temporarily restricted net assets are the portion of net assets whose use is limited by donor imposed stipulations that can be removed by the passage of time or action of the Foundation pursuant to those stipulations. Permanently restricted net assets are the portion of net assets whose use is limited by donor imposed stipulations that cannot be removed by the passage of time or action of the Foundation.

Total Return Policy

The Foundation follows PA Act 141, "Investment of Trust Funds," and has adopted a total return policy for its permanently restricted endowment funds. Based on the PA Act 141 guidelines the policy has been set into place where income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7%, and was approved to be 4% for the years ended June 30, 2012 and 2011. Actual investment return, net of the 4% spending policy, is added back to the permanently restricted corpus. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of the fund as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support Fee

In 2008, the Foundation adopted a policy of charging a support fee to endowment accounts to provide for future unrestricted funds with which to support the Foundation's office operations. The 1.5% support fee is in addition to the 4% total return policy described above and is calculated based on the market value of each endowment fund (restricted or unrestricted) on July 1 of each year. Funds that have no balance on July 1, are completely expended during the year, or have nominal market values at the end of the year, along with funds related to the major gift campaign, are not charged support fees. To preserve endowments due to unstable market conditions, The Board of Directors suspended the support fee for the years ended June 30, 2012 and June 30, 2011.

Charitable Remainder Annuity Trust

The Foundation was the beneficiary of several trusts established by a donor. The Foundation received the value of the trusts upon the death of the donor that occurred in year ended June 30, 2012. The receivable and contribution revenue were recorded on the date of the establishment of the trust and were discounted based on an estimated rate and life expectancy of the donor. These trusts were included in contributions receivable on the statements of financial position at year ended June 30, 2011.

Functional Expenses

The functional expense classifications on the statements of functional expense of scholarships and awards, debt service, capital expenditures, and other endowment disbursements represent funds forwarded to the College for those purposes. The "Transferred to HACC" caption represents funds collected for the Select Medical and Dental Hygiene Campaigns. The balances for these campaigns were transferred to the College during 2011 and 2012. All other statement of functional expense captions represents reimbursements to the College for operational expenditures of the Foundation.

Advertising Costs

The Foundation expenses advertising costs as incurred, which amounted to \$3,734 and \$482 for 2012 and 2011, respectively.

Uncertain Tax Positions

The Foundation has adopted the guidance in *Accounting for Uncertainty in Income Taxes* (ASC 740-10). This guidance prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. It also recognizes related guidance on measurement, classification, interest and penalties, and disclosure. The Foundation does not believe that there are any unrecognized tax benefits or costs that should be recorded.

Reclassifications

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

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 1.0% at June 30, 2012 and 2.0% at June 30, 2011. The amortized discount was \$156,440 and \$342,161 at June 30, 2012 and 2011, respectively. The discounted pledges and related allowance for uncollectible contributions, estimated by management, are scheduled to be collected as follows:

Unconditional promises are expected to be collected in:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 262,447	\$ 725,590
One year to five years	1,696,597	2,107,377
Over five years	<u>1,238,626</u>	<u>1,230,967</u>
	3,197,670	4,063,934
Less allowance for uncollectible contributions	(43,603)	(43,603)
Less present value discount	<u>(156,440)</u>	<u>(342,161)</u>
Total	<u>\$ 2,997,627</u>	<u>\$ 3,678,170</u>

Contributions receivable consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Pledges receivable, net of discount and allowance for uncollectible contributions	\$ 2,997,627	\$ 3,604,425
Charitable remainder annuity trusts held by outside party	<u>-</u>	<u>73,745</u>
Total	<u>\$ 2,997,627</u>	<u>\$ 3,678,170</u>

During 2000, 2001, and 2003, the Foundation was named the remainder interest beneficiary of charitable remainder annuity trusts where the Foundation was not the trustee and did not exercise control over the assets contributed to the trusts. The charitable remainder annuity trusts required quarterly payments to the beneficiary of 7% to 9% of the original trust corpus. The Foundation recorded the agreements as contributions receivable and contributions at the present value of the estimated future benefits to be received when the trust assets were distributed. Adjustments were made to the receivables on a yearly basis to reflect the accretion of the discounts and revaluation of the present values of the estimated future payments. Due to the recent passing of the donor of the remainder trusts, the College collected \$92,228 during the year ended June 30, 2012. The difference between the amount collected during the year ended June 30, 2012, \$92,228, and the amount recorded in contributions receivable at year ended June 30, 2011, \$73,745, is recorded as contribution revenue at year ended June 30, 2012.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – INVESTMENTS

Investments of the Foundation are carried at fair value and as of June 30, 2012 and 2011 are comprised of the following:

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

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – INVESTMENTS (CONTINUED)

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

The following summarizes the composition of investment return for the years ended June 30:

	2012	2011
Realized and unrealized gains (losses), net	\$ (600,507)	\$ 4,216,183
Investment income, net	<u>638,321</u>	<u>543,842</u>
Total	<u>\$ 37,814</u>	<u>\$ 4,760,025</u>

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – INVESTMENTS (CONTINUED)

Investment related expenses were \$108,325 and \$116,213 for the years ended June 30, 2012 and 2011, respectively. Investment income is reduced by these expenses in the statements of activities.

NOTE 4 – FAIR VALUE MEASUREMENTS

In determining fair value, the Foundation uses various approaches within the ASC 820-10 framework, which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820-10 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1

Inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets may include securities that are traded in an active exchange market, or actively traded over-the-counter markets.

Level 2

Valuation is based on directly or indirectly observable inputs other than quoted prices included within Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Valuation is based on unobservable inputs for the asset or liability. Level 3 assets include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on the Foundation's statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Money Market Accounts

Money markets are valued at a stable \$1.00 net asset value which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investment; such securities are classified within Level 2 of the valuation hierarchy.

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NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Equity Securities and Mutual Funds

Equity securities and mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Foundation's interests in mutual funds are categorized by type as growth, index, value, international, and fixed income. Such securities are classified within Level 1 of the valuation hierarchy.

Government Obligations and Corporate Bonds

Government obligations consisting of U.S. Treasury bonds and notes, agency securities, mortgage backed securities and corporate debt obligations consisting of bonds are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type. Such investments are generally classified within Level 2 of the valuation hierarchy.

The following table sets forth by level within the fair value hierarchy, the Foundation's financial assets classified as "Investments" that were accounted for at fair value as of June 30, 2012 and 2011:

	2012			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Money market funds	\$ -	\$ 1,146,952	\$ -	\$ 1,146,952
Mutual funds by type:				
Growth	1,746,723	-	-	1,746,723
Index	4,268,904	-	-	4,268,904
Value	1,738,165	-	-	1,738,165
International	2,111,593	-	-	2,111,593
Fixed income	8,198,679	-	-	8,198,679
Other	598,505	-	-	598,505
Total mutual funds	18,662,569	-	-	18,662,569
Equities by industry:				
Consumer Discretionary	775,328	-	-	775,328
Consumer Staples	1,009,855	-	-	1,009,855
Energy	862,951	-	-	862,951
Financial	1,269,085	-	-	1,269,085
Health Care	999,590	-	-	999,590
Industrials	493,917	-	-	493,917
Information technology	1,340,387	-	-	1,340,387
Materials	281,789	-	-	281,789
Telecommunication services	186,281	-	-	186,281
Utilities	150,156	-	-	150,156
International	112,640	-	-	112,640
Total equities	7,481,979	-	-	7,481,979
Government obligations	-	10,052	-	10,052
Corporate bonds	-	535,872	-	535,872
Total	\$ 26,144,548	\$ 1,692,876	\$ -	\$ 27,837,424

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NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

	2011			Total Fair Value
	Level 1	Level 2	Level 3	
Money market funds	\$ -	\$ 1,287,786	\$ -	\$ 1,287,786
Mutual funds by type:				
Growth	2,166,425	-	-	2,166,425
Index	3,892,467	-	-	3,892,467
Value	918,108	-	-	918,108
International	3,004,111	-	-	3,004,111
Fixed income	<u>6,553,591</u>	-	-	<u>6,553,591</u>
Total mutual funds	16,534,702	-	-	16,534,702
Equities by industry:				
Consumer Discretionary	875,556	-	-	875,556
Consumer Staples	1,038,011	-	-	1,038,011
Energy	1,168,120	-	-	1,168,120
Financial	1,262,390	-	-	1,262,390
Health Care	1,073,822	-	-	1,073,822
Industrials	614,766	-	-	614,766
Information technology	1,443,513	-	-	1,443,513
Materials	323,992	-	-	323,992
Telecommunication services	248,434	-	-	248,434
Utilities	145,058	-	-	145,058
International	<u>103,287</u>	-	-	<u>103,287</u>
Total equities	8,296,949	-	-	8,296,949
Government obligations	-	41,342	-	41,342
Corporate bonds	<u>-</u>	<u>1,282,998</u>	<u>-</u>	<u>1,282,998</u>
Total	<u>\$ 24,831,651</u>	<u>\$ 2,612,126</u>	<u>\$ -</u>	<u>\$ 27,443,777</u>

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – NET ASSETS

The Foundation's Board of Directors has chosen to place the following limitations on unrestricted net assets at June 30:

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

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

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

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

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

NOTE 6 – ENDOWMENTS

The Foundation's endowments consist of individual funds established to provide scholarships and benefits for students of Harrisburg Area Community College. The endowments include both donor-restricted endowment funds and funds designated by the Foundation to function as an endowment. Net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of donor-imposed restrictions.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 – ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The classification of the net assets associated with endowment funds is based on the Board's interpretation of Pennsylvania's statutes that govern such endowments and its interpretations of donor intent and the related endowment bylaws. The Commonwealth of Pennsylvania has not enacted a version of the UPMIFA, or a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. § 5548 "Investment of Trust Funds." The Foundation has interpreted relevant law as requiring the donor-restricted endowment fund, absent explicit donor stipulations to the contrary, to be managed with the long-term objective of at least maintaining the real value of the funds. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) any undistributed investment return, including gains and losses, net of the Board's spending policy.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation's Board.

The Foundation considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Foundation, the purpose of any donor restrictions, general economic conditions, the possible effects of inflation and deflation, the expected total return from income and the appreciation of investments, and other resources.

Spending Policy

The Board of Directors annually makes a determination of the level of funding that will be provided to the Foundation. The Board has the ability to provide funding from the annual investment income and has established a policy of receiving distributions equal to 4% of the average market value of the endowments for the last 3 years.

Strategies Employed for Achieving Objectives

The endowments are invested consistent with an investment policy statement that is monitored by the Board of Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and income (interest and dividends). Funds in the endowment are primarily invested in equities and fixed income securities or mutual funds. The investment policy sets investment ranges at 65% equities and 35% fixed income securities with a 10% variance.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 – ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30:

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 976,555	\$ -	\$ -	\$ 976,555
Donor restricted endowment funds	-	3,382,895	15,836,673	19,219,568
Total	<u>\$ 976,555</u>	<u>\$ 3,382,895</u>	<u>\$ 15,836,673</u>	<u>\$ 20,196,123</u>

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 983,855	\$ -	\$ -	\$ 983,855
Donor restricted endowment funds	-	2,720,252	15,879,100	18,599,352
Total	<u>\$ 983,855</u>	<u>\$ 2,720,252</u>	<u>\$ 15,879,100</u>	<u>\$ 19,583,207</u>

The changes in endowment net assets for 2012 and 2011 were as follows:

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2010	\$ 983,855	\$ 2,720,252	\$ 15,879,100	\$ 19,583,207
Investment return:				
Investment income (loss)	19,272	58,443	(181,660)	(103,945)
Realized gains	11,964	37,559	229,041	278,564
Net appreciation (unrealized)	(28,500)	(70,286)	(563,728)	(662,514)
Total investment return	2,736	25,716	(516,347)	(487,895)
Contributions	28,197	857,854	473,920	1,359,971
Transfers	-	16,155	-	16,155
Distributions to the Foundation for expenditure	(38,233)	(237,082)	-	(275,315)
Endowment net assets at June 30, 2011	<u>\$ 976,555</u>	<u>\$ 3,382,895</u>	<u>\$ 15,836,673</u>	<u>\$ 20,196,123</u>

Included in the above amounts is \$2,997,627 and \$3,678,170 of contributions receivable at June 30, 2012 and 2011, respectively.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – ENDOWMENTS (CONTINUED)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2011	\$ 830,253	\$ 1,889,993	\$ 13,309,110	\$ 16,029,356
Investment return:				
Investment income (loss)	17,381	45,185	(183,689)	(121,123)
Realized gains	44,888	110,280	690,254	845,422
Net appreciation (unrealized)	86,295	218,819	1,626,718	1,931,832
Total investment return	148,564	374,284	2,133,283	2,656,131
Contributions	25,688	934,226	436,707	1,396,621
Distributions to the Foundation for expenditure	(20,650)	(478,251)	-	(498,901)
Endowment net assets at June 30, 2012	\$ 983,855	\$ 2,720,252	\$ 15,879,100	\$ 19,583,207

NOTE 7 – INVESTMENT INCOME

Investment income consists of interest and dividends, and was allocated as follows, for the years ending June 30:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted	\$ 69,329	\$ -	\$ -	\$ 69,329
Temporarily unrestricted	-	207,490	-	207,490
Permanently restricted	-	-	365,723	365,723
Change to accrued interest	(254)	(1,559)	(2,408)	(4,221)
Total	\$ 69,075	\$ 205,931	\$ 363,315	\$ 638,321

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – INVESTMENT INCOME (CONTINUED)

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Unrestricted	\$ 68,841	\$ -	\$ -	\$ 68,841
Temporarily unrestricted	-	184,814	-	184,814
Permanently restricted	-	-	313,635	313,635
Change to accrued interest	<u>(27,266)</u>	<u>15,878</u>	<u>(12,060)</u>	<u>(23,448)</u>
Total	<u>\$ 41,575</u>	<u>\$ 200,692</u>	<u>\$ 301,575</u>	<u>\$ 543,842</u>

NOTE 8 – PENSION PLAN

The Foundation employees participate in a retirement program through the Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA - CREF) and are required to contribute 5% of their gross earnings. Costs are actuarially determined by TIAA - CREF, and are currently funded by employer contributions at 10% and employee contributions. Employer contributions for the years ended June 30, 2012 and 2011 were \$41,012 and \$30,382, respectively. Employee contributions for the years ended June 30, 2012 and 2011 were \$20,506 and \$24,170, respectively.

NOTE 9 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on the statement of activities. The statement of functional expenses further allocates these expenses based on their natural classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon management's judgment and past experience.

NOTE 10 – TAX EXEMPT STATUS

The Internal Revenue Service has determined that the Harrisburg Area Community College Foundation is an organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income tax, except as to unrelated business income under Section 509(a)(3) of the Internal Revenue Code, and is not subject to federal excise taxes. The Foundation had no unrelated business income for the years ended June 30, 2012 and 2011. Returns for fiscal years 2009, 2010, and 2011 remain subject to examination by federal and state tax jurisdictions.

HARRISBURG AREA COMMUNITY COLLEGE FOUNDATION
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June 30, 2012 and 2011

NOTE 11 – RELATED PARTIES

Harrisburg Area Community College is deemed to be a related party to the Harrisburg Area Community College Foundation due to the oversight responsibility of the College and because the Foundation's primary purpose is to raise funds to benefit the College. The amount due to the College at June 30, 2012 and 2011 represents unpaid amounts related to special initiative grants for prior years and other operational activity. Beginning on July 1, 2011, the College also directly pays the salaries of College employees that provide services to the Foundation which are reflected in the financial statements as a contribution in kind. The allocation of employee salaries between the College and the Foundation varies based on their roles and responsibilities. Thus, the Foundation's share of these salaries is reflected in these financial statements as salaries and employee benefits and payroll taxes.

NOTE 12 – SUBSEQUENT EVENTS

Management evaluated subsequent events through November 6, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to November 6, 2012, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.