C O N T E N T S

HARRISBURG AREA COMMUNITY COLLEGE

LIST OF REPORT DISTRIBUTION

JUNE 30, 2003

2 Reports -	Federal Audit Clearing House Bureau of Census 1201 East 10th Street Jeffersonville, Indiana 47132
5 Reports -	Bureau of Audits Bell Tower – 6th Floor 303 Walnut Street Harrisburg, Pennsylvania 17101-1830
1 Report -	State Public School Building Authority P. O. Box 990 Camp Hill, PA 17001

Harrisburg Area Community College
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

Introduction:

Management's discussion and analysis of Harrisburg Area Community College's financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2003. It should be read in conjunction with the financial statements and notes that follow.

The College prepared the financial statements in accordance with Government Accounting Standards Board (GASB) principles. During fiscal year 2003, the College implemented GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This statement establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented to focus on the College as a whole. Previously, financial statements focused on individual fund groups rather than the College as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenditures, and Changes in Net Assets; and the Statement of Cash Flows. The discussion about these statements focuses on current activities, resulting changes, and currently known facts of the College's financial activities for the year. This is the first year for this new reporting format and direct comparison with previously issued financial statements is not required. In future years, when prior year information is available in the GASB Statement No. 35 format, a comparative analysis of college-wide data will be presented.

The College's basic financial statements contain information for both the primary institution and its component unit, the HACC Foundation. Management's discussion and analysis focuses on the primary institution. Separately issued financial statements are available for HACC Foundation by contacting Mr. George Franklin, Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

Statement of Net Assets:

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The statement also provides a snapshot of the financial condition of the College because net assets represent funds available to continue the operations of the institution.

Net assets, which is the difference between total assets and total liabilities, are divided into two major categories. The first category, Invested in Capital Assets, Net of Debt, represents the College's equity in property, plant and equipment. The second category, Unrestricted Net Assets, represents funds available to the College for any other lawful purposes. The following chart summarizes the College's net assets as of June 30, 2003.

Statement of Net Assets (Continued):

Net Assets
(In millions of dollars)

Assets	
Current Assets	$ 25.3
Noncurrent Assets	60.8
Total Assets	86.1
Liabilities	
Current Liabilities	12.0
Noncurrent Liabilities	18.6
Total Liabilities	30.6
Net Assets	
Invested in Capital Assets, net of debt	43.1
Unrestricted	12.4
Total Net Assets	$ 55.5

Statement of Revenues, Expenses, and Changes in Net Assets:

The Statement of Revenues, Expenses, and Changes in Net Assets presents the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

Operating revenues are those received by the College for directly providing goods and services. Nonoperating revenues are those that exclude a direct exchange of goods and services. State and School District appropriations are classified as nonoperating revenues since these governmental agencies do not directly receive goods or services for the revenue.

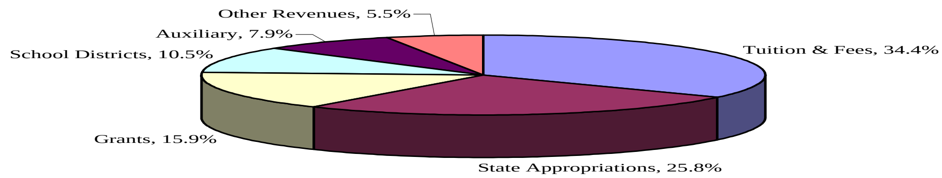
The following is a summarized version of the College's revenues, expenses and changes in net assets for the year ended June 30, 2003 and graphical representations of revenues and expenses by category.

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

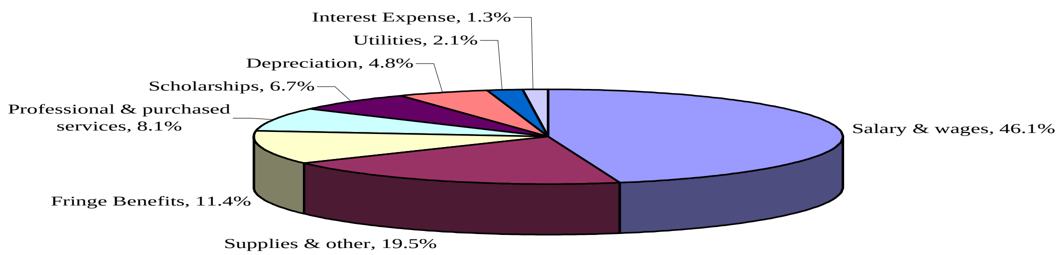
Operating Revenues	$ 54.4
Operating Expenses	83.8
Operating Income (Loss)	(29.4)
Nonoperating Revenues (net)	31.2
Net Income (Loss) Before Capital Contributions	1.8
Capital Contributions	5.8
Increase (Decrease) in Net Assets	$ 7.6

Statement of Revenues, Expenses, and Changes in Net Assets (Continued):

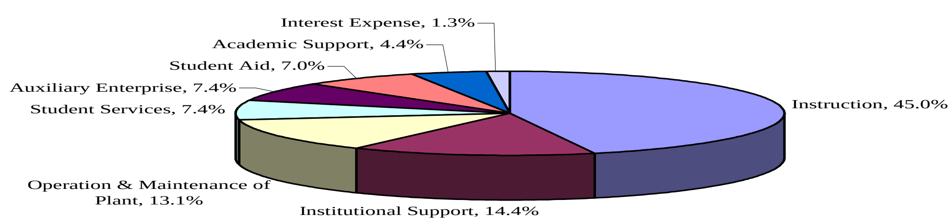
Total Operating and Nonoperating Revenues:



Total Expenditures by Natural Source:



Total Expenditures by Function:



The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year. Continued enrollment growth generated both additional revenue and expense. For the year ended June 30, 2003, there was an increase in net assets of $ 7.6 million.

Statement of Cash Flows:

The final statement presented by Harrisburg Area Community College is the Statement of Cash Flows. The Statement of Cash Flows presents information about the cash activity of the College. The statement shows the major sources and uses of cash during the year. The following is a summary of the statement of cash flows for the year ended June 30, 2003.

Cash Flows
(In millions of dollars)

Cash Provided (Used) By:	
Operating Activities	($ 25.1)
Noncapital Financing Activities	33.2
Capital Financing Activities	(3.9)
Investing Activities	0.2
Net Increase in Cash and Cash Equivalents	4.4
Cash and Cash Equivalents - Beginning of Year	11.7
Cash and Cash Equivalents - End of Year	$ 16.1

Capital Asset and Debt Administration:

During the year ended June 30, 2003, the College had total capital additions of approximately $ 4 million. This activity includes the gift of a building, which now houses the College's Community Center for Technology and the Arts; furniture, fixtures, and equipment (FF&E) related to the expansion of academic programs at the Gettysburg Campus, including a new nursing program; expansion of the Wildwood Campus Bookstore facility; acquisition of instructional and other equipment; and various other improvements on the College's campuses.

During fiscal year 2003-2004, the College will be purchasing FF&E costing approximately $ 650,000 for use at Penn Center Harrisburg. The College will be leasing 61,000 square feet of space from the developers of Penn Center Harrisburg due to increases in enrollments in the nursing and other allied health programs and the related increased requirements for math, science and other courses. At Penn Center, the College will also be co-locating with other state and local workforce development and training entities to create a truly one-stop service center for unemployed/displaced workers, businesses, and industry.

Additionally, the College has announced plans to build the Select Medical Health Education Pavilion, and an Early Childhood Education Center on the Wildwood Campus. This project is projected to be completed by August 2005. While funding has not been finalized, we do plan to secure financing via a loan or bonds for the construction project. We anticipate the resulting debt to be paid off with capital campaign proceeds and state funding.

Continued enrollment growth at the Lancaster Campus has created the immediate need for a second academic building, a maintenance building, and additional parking lots. The buildings are scheduled to be completed for occupancy in time for the Fall 2004 semester. While the building will be leased from the developer, we will need to finance approximately $ 3.2 million for furniture, fixtures, and equipment for the new building.

The College has several outstanding debt instruments which were issued to finance construction and other improvements such as HVAC and window upgrades, implementation of an integrated computer system, and other various campus improvements. These debts, including payment schedules, are more fully described in Notes 8 and 9 of the financial statements.

Economic Factors That Will Affect the Future:

The economic position of Harrisburg Area Community College is closely tied to the economy and the State's budget. Downturns in the economy and higher unemployment, larger high school graduating classes, the College's expansion into new markets, and retention efforts have resulted in continued enrollment growth. Conversely, statewide enrollment growth in a time of reduced tax revenues has strained the State's budget. Since fiscal year 2002 the College has received no state support for non-mandated (equipment, furniture) capital needs, or state approval/funding of new mandated (leases, debt) capital projects. In addition to these capital funding constraints, there is now concern that the State may not fully fund operating full-time equivalent students (FTE) in fiscal year 2004.

The College's continued enrollment growth and pressing expansion needs to serve our customers compel us to grow during this time of uncertain state funding. To accomplish this expansion the College will fund 100% of these capital costs from current revenues and existing reserves until state funding is made available. In response to this situation the College is taking the following actions:

- Approved a 3.5% tuition increase for fiscal year 2004.
- Pursuing alternate funding sources through grants, capital campaigns, and business partnerships.
- Partnered with local hospitals and state agencies to find funding sources to deliver new programs needed in the healthcare fields.

Overall, the College's current financial position is very strong. While mindful of state funding issues, current enrollment trends enable the College to maintain/exceed its present level of services.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of Harrisburg Area Community College and its discretely presented component unit for the year ended June 30, 2003, as listed in the foregoing table of contents. These financial statements are the responsibility of Harrisburg Area Community College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. 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 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 respective financial position of Harrisburg Area Community College and of its discretely presented component unit as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Harrisburg Area Community College implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statements*, No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* and No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus,* as of July 1, 2002. Harrisburg Area Community College also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2002.

The management's discussion and analysis on pages 2 to 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003 on our consideration of Harrisburg Area Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Trustees
Harrisburg Area Community College

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and NonProfit Organizations*, and is not a required part of the financial statements of Harrisburg Area Community College. The schedule of expenses by functional classification - primary institution is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 3, 2003

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2003

		PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION
ASSETS				
Current Assets				
Cash and cash equivalents	$	16,139,423	$	159,327
Short-term investments		485,975		863,851
Accounts receivable, net of allowance for doubtful accounts of $250,000		7,252,100		897,192
Loans receivable		25,306		0
Other assets		396,440		0
Inventories		934,746		0
Due from HACC Foundation		45,324		0
Total Current Assets		25,279,314		1,920,370
Non-current Assets				
Long-term investments		0		21,199,973
Loans receivable		135,969		0
Capital assets net of accumulated depreciation		60,672,993		0
Total Non-current Assets		60,808,962		21,199,973
Total Assets	$	86,088,276	$	23,120,343
LIABILITIES				
Current Liabilities				
Due to HACC	$	0	$	45,324
Accounts payable and accrued expenses		6,627,886		0
Deposits held in custody for others		295,272		0
Deferred revenue		1,790,521		16,125
Current portion of long term liabilities		3,230,592		0
Total Current Liabilities		11,944,271		61,449
Non-Current Liabilities				
Accounts payable and accrued expenses		18,924		0
Long term liabilities		18,609,047		0
Total Non-Current Liabilities		18,627,971		0
Total Liabilities		30,572,242		61,449
NET ASSETS				
Invested in capital assets, net of related debt		43,153,018		0
Restricted - nonexpendable		0		9,816,222
Restricted - expendable		0		5,733,562
Unrestricted		12,363,016		7,509,110
Total Net Assets		55,516,034		23,058,894
Total Liabilities and Net Assets	$	86,088,276	$	23,120,343

The Notes to Financial Statements are an integral part of this statement.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2003

	PRIMARY INSTITUTION	COMPONENT UNIT FOUNDATION
REVENUES		
Operating Revenues		
Student tuition and fees, net of scholarship allowance of $3,298,147	$ 29,778,654	$ 0
Federal grants	8,412,436	0
State and local grants	5,061,586	0
Nongovernmental grants	343,770	0
Sales and services of auxiliary enterprises	6,850,331	0
Other operating revenues	3,944,982	0
Contributions	0	1,538,705
Investment income, net of investment expense of $56,383	0	452,441
Realized and unrealized gains (losses) on investments	0	(339,489)
Total Operating Revenues	54,391,759	1,651,657
EXPENSES		
Operating Expenses		
Salaries and wages	39,096,264	140,344
Fringe benefits and payroll taxes	9,702,845	32,636
Supplies and other expense	16,680,278	94,553
Professional and purchased services	6,876,531	28,909
Utilities	1,764,499	0
Depreciation and amortization	4,047,852	0
Scholarships	5,647,149	222,604
Contributions and grants	0	994,890
Total Operating Expenses	83,815,418	1,513,936
Operating Income (Loss)	(29,423,659)	137,721
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	22,339,980	0
Local appropriations	9,133,031	0
Gifts	601,372	0
Investment income, net of investment expense of $10,770	248,513	0
Interest on capital asset related debt	(1,080,802)	0
Total Non-Operating Revenues, net	31,242,094	0
Net Income (Loss) Before Capital Contributions	1,818,435	137,721
CAPITAL CONTRIBUTIONS		
Capital approriations - local sources	200,000	0
Capital appropriations - state sources	3,753,271	0
Capital grants and gifts	1,854,351	0
Total Capital Contributions	5,807,622	0
Increase in Net Assets	7,626,057	137,721
Net Assets - Beginning of Year (as restated)	47,889,977	22,921,173
Net Assets - End of Year	$ 55,516,034	$ 23,058,894

The Notes to Financial Statements are an integral part of this statement.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
For the year ended June 30, 2003

	PRIMARY INSTITUTION	COMPONENT UNIT FOUNDATION
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received for tuition and fees	$ 30,784,135	$ 0
Payments received from grants and contracts	12,807,507	0
Payments received from auxiliary enterprise charges	6,601,009	0
Payments received from other revenues	3,926,132	0
Payments received from donors (temporary and unrestricted)	0	125,257
Payments received from investment activities	0	466,435
Payments to and on behalf of employees	(48,955,949)	(172,980)
Payments to suppliers for goods and services	(24,190,549)	(121,406)
Payments for contributions and grants	0	(829,202)
Payments for financial aid and scholarships	(6,047,877)	(230,599)
Net cash used in operating activities	(25,075,592)	(762,495)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	24,015,579	0
Local appropriations	8,564,777	0
Gifts received	656,574	0
Collection of permanently restricted support	0	1,278,978
Net cash provided by noncapital financing activities	33,236,930	1,278,978
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State and local appropriations	3,755,995	0
Capital grants and gifts received	906,526	0
Purchases of capital assets	(4,217,223)	0
Principal paid on bonds payable, notes payable, and capital leases	(3,284,382)	0
Interest paid on bonds payable, notes payable, and capital leases	(1,080,802)	0
Net cash used by capital financing activities	(3,919,886)	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	0	(23,244,201)
Proceeds from sale/maturities of investments	0	22,789,434
Investment income	244,702	0
Net cash provided by investing activities	244,702	(454,767)
Increase in cash and cash equivalents	4,486,154	61,716
Cash and Cash equivalents - Beginning of Year	11,653,269	97,611
Cash and Cash equivalents - End of Year	$ 16,139,423	$ 159,327

The Notes to Financial Statements are an integral part of this statement.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS - CONTINUED
For the year ended June 30, 2003

	PRIMARY INSTITUTION	COMPONENT UNIT FOUNDATION
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	($ 29,423,659)	$ 137,721
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	4,047,852	0
Loss on disposal of capital assets	10,726	0
Realized and unrealized (gain) loss on investments	0	339,489
Contributions restricted for long-term investment	0	(1,278,978)
(Increase) Decrease in:		
Accounts receivable	(144,964)	(140,132)
Inventory	(288,248)	0
Other assets	195,486	249,300
Increase (Decrease) in:		
Deferred revenue	0	16,125
Accounts payable and accrued expense	516,733	(86,020)
Deposits	10,482	0
Net cash used in operating activities	($ 25,075,592)	($ 762,495)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS		
Capital gifts of equipment and buildings	$ 948,172	$ 0
Capital assets acquired through capital leases	$ 211,187	$ 0
Realized and unrealized gains (losses) on investments	$ 8,674	($ 339,489)

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary Of Significant Accounting Policies

Organization

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

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

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

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

Reporting Entity – In May 2002, GASB issued Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends Statement No. 14, The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The College early implemented Statement No. 39 during the fiscal year ended June 30, 2003.

The Harrisburg Area Community College Foundation (the "HACC Foundation") and the Wildwood Conference Center Foundation are included in the College’s financial statements as component units due to the oversight responsibility of the College. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. In accordance with the provisions of GASB Statement 39, the HACC Foundation is shown as a discretely presented component unit due primarily to the fact that it was organized for the purpose of receiving gifts and grants and to distribute the available funds to, or for the benefit of, the College. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as blended component unit and included with the activity of the college. Separate financial statements are available for the HACC Foundation by contacting the College's Office of Finance and College Resources, One HACC Drive, Harrisburg, Pennsylvania 17110-2999.

Financial Statement Presentation **-** During fiscal 2003, the College adopted GASB Statements No. 34 and 35 (as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*), and No. 38, *Certain Financial Statement Note Disclosures.* These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

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

- *Restricted net assets, expendable* - This includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

- *Restricted net assets, nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2002 fund balances, as previously reported, to the restated net asset balances for the same date. There were no prior period adjustments necessary in order to implement GASB 35; however, there were several other prior period entries as detailed below:

	June 30, 2002
Combined fund balances, as previously reported	$ 73,314,990
Prior period entry (1)	(22,921,173)
Prior period entry (2)	(2,191,012)
Prior period entry (3)	(312,828)
Combined fund balances, restated as net assets	$ 47,889,977

Note 1. Summary Of Significant Accounting Policies (Continued)

(1) A prior period entry was necessary due to the implementation of GASB Statement 39. This statement requires presentation of HACC Foundation as a discretely presented component unit. An entry reducing net assets was necessary in order to separate the net assets of the Foundation which were previously shown as a blended component unit and included with the fund balances of the College.

(2) It was determined during the fiscal year ended June 30, 2003 that no liability had been recorded for accumulated sick leave that is payable to employees upon retirement subject to certain limitations. An entry was necessary to record the liability and reduce ending net assets as of June 30, 2002.

(3) In the past, the residual balance of loan funds was shown as a restricted fund balance of the College. However, because these are federally funded loan programs, the loan funds due from students are basically a liability back to the federal government. An entry was necessary to reduce fund balance and record the balance of these loans due back to the government as a liability as of June 30, 2002.

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

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

Cash and Cash Equivalents – These include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, the College's short-term investment pool. For purposes of the statement of net assets, the College considers all highly liquid investments with original maturities of three months or less, and certificates of deposit with no significant early withdrawal penalties, to be cash equivalents.

***Investments* -** Investments are reported at fair value based on quoted market prices.

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

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

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

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

Compensated Absences – Liability for compensated absences is accounted for in accordance with the provisions of Statement No. 16 of the GASB, *Accounting for Compensated Absences.* This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

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

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net assets.

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

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

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

Note 1. Summary Of Significant Accounting Policies (Continued)

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

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

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

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

Pension Plans – Employees of the College are provided pension benefits through one of three available cost-sharing, multiple-employer retirement plans. The College follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 27 establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 14 for additional information.

Note 2. Cash and Cash Equivalents

The College's bank balances at June 30, 2003, are classified below in the following three categories of credit risk (not applicable to HACC Foundation, a nonprofit entity):

(1) Insured or collateralized with securities held by the College or by its agent in the College's name.

(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.

Note 2. Cash and Cash Equivalents (Continued)

(3) Uncollateralized, including any bank balance that is collateralized with the securities held by the pledging financial institution or by its trust department or agent but not in the College's name.

	Bank Balance				
	Category 1	Category 3	Uncategorized	Total	Book Balance
(A) Cash	$ 178,590	$ 7,209,022	$ 0	$ 7,387,612	$ 6,232,560
(B) PSDLAF	0	0	5,305,614	5,305,614	5,305,614
(B) Commonfund short-term investments	0	0	4,601,249	4,601,249	4,601,249
Total	$ 178,590	$ 7,209,022	$ 9,906,863	$ 17,294,475	$ 16,139,423

(A) The College's cash deposits are covered by federal depository (Category 1) insurance or by pooled, pledged assets (not in the name of the College) of the various depositories pursuant to the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposit in excess of federal insurance (Category 3).

(B) The Pennsylvania School District Liquid Asset Fund (PSDLAF) and Commonfund short-term investments have the characteristics of a mutual fund and accordingly are not categorized by risk category in accordance with Governmental Accounting Standards Board Statement Number 3. These investments are properly collateralized and have market values that approximate cost.

Note 3. Investments

The College utilizes an investment policy that authorizes investments in certificates of deposit, U. S. Government obligations, repurchase agreements, as well as PSDLAF and Commonfund investments.

Investments of the College are as follows at June 30, 2003:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds – Commonfund Intermediate	$ 500,000	$ 0	($ 14,025)	$ 485,975

Mutual funds are not categorized by risk category in accordance with Governmental Accounting Standards Board Statement No. 3.

Investments of the HACC Foundation as of June 30, 2003 are comprised of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	$ 863,851	$ 863,851	$ 0
Equities	16,796,659	15,882,162	(914,497)
Government obligations	3,196,956	3,298,956	102,000
Corporate bonds	1,875,383	2,018,855	143,472
	$ 22,732,849	$ 22,063,824	($ 669,025)

Note 4. **Accounts Receivable**

Accounts receivable consist of the following at June 30, 2003:

	College	HACC Foundation
Student Tuition and fees, net of allowance for doubtful accounts of $ 250,000	$ 3,794,483	$ 0
Grants and contracts receivable	2,442,154	0
State appropriations receivable	76,487	0
Bookstore receivables	773,141	0
Other receivables	165,835	50,094
Pledges receivables	0	699,361
Charitable remainder annuity trust held by outside party	0	147,737
Total	$ 7,252,100	$ 897,192

Bookstore receivables include $ 511,271 in vendor credit memos.

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 6% for June 30, 2003. The unamortized discount was $ 145,595 at June 30, 2003.

Note 5. **Capital Assets**

The following is a summary of capital asset transactions of the College for the year ended June 30, 2003:

	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land	$ 1,639,470	$ 0	$ 0	$ 1,639,470
Building	50,681,493	802,300	0	51,483,793
Improvements - land	733,980	178,199	0	912,179
Improvements - building	12,407,538	1,426,658	0	13,834,196
Improvements - leasehold	1,922,705	873,964	0	2,796,669
Instructional equipment	15,829,667	854,115	(6,382)	16,677,400
Non-instructional equipment	4,306,310	1,166,251	(109,625)	5,362,936
Total cost	87,521,163	5,301,487	(116,007)	92,706,643
Less accumulated depreciation:				
Building	(14,887,164)	(1,260,977)	0	(16,148,141)
Improvements - land	(63,608)	(41,694)	0	(105,302)
Improvements - building	(3,181,536)	(687,925)	0	(3,869,461)
Improvements - leasehold	(94,589)	(119,607)	0	(214,196)
Instructional equipment	(7,047,314)	(338,004)	2,583	(7,382,735)
Non-instructional equipment	(2,822,932)	(1,593,581)	102,698	(4,313,815)
Total accumulated depreciation	(28,097,143)	(4,041,788)	105,281	(32,033,650)
Capital assets, net	$ 59,424,020	$ 1,259,699	($ 10,726)	$ 60,672,993

Note 6. Other Assets

Other assets at June 30, 2003 consist of:

Prepaid expenses	$ 306,286
Bond costs, net of accumulated amortization of $ 64,099	90,154
	$ 396,440

Note 7. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Long-term Portion	Current Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 0	$ 211,187	($ 23,101)	$ 188,086	$ 148,316	$ 39,770
Bonds and notes payable:						
Series of 1991 D	1,170,000	0	(565,000)	605,000	0	605,000
Series of 1995 C and D	15,340,000	0	(1,205,000)	14,135,000	12,880,000	1,255,000
Series of 1998 N	1,610,000	0	(870,000)	740,000	375,000	365,000
Note payable - 2001	2,554,407	0	(612,364)	1,942,043	1,300,499	641,544
Total leases and bonds/notes payable	20,674,407	211,187	(3,275,465)	17,610,129	14,703,815	2,906,314
Other liabilities:						
Compensated absences:						
Vacation leave	1,425,950	220,650	(65,428)	1,581,172	1,475,265	105,907
Sick leave	2,191,012	157,043	(69,403)	2,278,652	2,207,888	70,764
Early retirement payable	522,051	0	(152,365)	369,686	222,079	147,607
Total other liabilities	4,139,013	377,693	(287,196)	4,229,510	3,905,232	324,278
Total long-term liabilities	$ 24,813,420	$ 588,880	($ 3,562,661)	$ 21,839,639	$ 18,609,047	$ 3,230,592

Additional information regarding the above information can be found in the following notes:

Bonds payable	Note 8
Notes payable	Note 9
Early retirement payable	Note 10
Capital lease obligation	Note 11

Note 8. Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2003 consist of the following:

1991 D, issued $ 11,195,000 in May 1991; 6.40% - 6.75%; interest and principal payable semi-annually through April 1, 2011	$ 605,000
1995 C, issued $ 5,810,000 in June 1995; at 4.65% - 5.6%; interest and principal payable semi-annually through April 1, 2011	3,395,000
1995 D, issued $ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011	10,740,000
1998 N, issued $ 4,835,000 in September 1998 at 3.70% - 4.15%; interest payable semi-annually and principal payable annually through April 2005	740,000
Total bonds payable	$ 15,480,000

Note 8. Bonds Payable (Continued)

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

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2004	$ 1,144,948	$ 429,971	$ 1,080,052	$ 403,107	$ 2,225,000	$ 833,078	$ 3,058,078
2005	1,203,236	368,867	1,136,764	346,463	2,340,000	715,330	3,055,330
2006	1,068,479	310,245	996,521	290,605	2,065,000	600,850	2,665,850
2007	1,121,574	255,079	1,048,426	239,661	2,170,000	494,740	2,664,740
2008	1,187,229	189,217	1,107,771	177,930	2,295,000	367,147	2,662,147
2009-2011	2,282,119	266,685	2,102,881	245,158	4,385,000	511,843	4,896,843
Total	$ 8,007,585	$ 1,820,064	$ 7,472,415	$ 1,702,924	$ 15,480,000	$ 3,522,988	$ 19,002,988

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

Note 9. Note Payable

The general obligation note payable to the State Public School Building Authority (SPSBA) dated May 1, 2001 has an interest rate of 4.75% and a maturity date of May 1, 2006. Interest and principal are payable semi-annually beginning November 1, 2001. Under the same agreement described above, the Commonwealth of Pennsylvania will reimburse the college for 50% of the principal and interest on the note. The note is not secured.

The scheduled payments are as follows:

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2004	$ 320,772	$ 42,499	$ 320,772	$ 42,498	$ 641,544	$ 84,997	$ 726,541
2005	336,295	26,975	336,295	26,975	672,590	53,950	726,540
2006	313,955	10,812	313,954	10,811	627,909	21,623	649,532
Total	$ 971,022	$ 80,286	$ 971,021	$ 80,284	$ 1,942,043	$ 160,570	$ 2,102,613

Note 10. Early Retirement Payable

In May 1999, HACC offered an Early Retirement Stipend Incentive Plan (ERSIP). This plan offered stipend payments and health care benefits to employees who agreed, by written commitment before June 30, 1999, to retire within the next year. The following details the future estimated payments for the fiscal years ended June 30:

2004	$ 166,091
2005	106,166
2006	41,704
2007	35,646
2008	36,723
2009 - 2010	28,289
Total	$ 414,619

Note 10. Early Retirement Payable (Continued)

The estimated ERSIP liability is discounted at a rate of 5.0% and is $ 369,686 at June 30, 2003.

Note 11. Leases

Capital Lease:

During the year the College entered into a capital lease for the purchase of an electronic sign. At June 30, 2003, the leased asset has a gross capitalized value of $ 211,187 and accumulated amortization of $ 17,599 leaving a net book value of $ 193,588 that is included in capital assets. Amortization expense is included with depreciation expense.

The future minimum lease payments under capital lease as of June 30, 2003 are as follows:

2004	$ 46,132
2005	46,132
2006	46,132
2007	46,132
2008	21,113
	205,641
Amount representing interest	(17,555)
	$ 188,086

Operating Leases:

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

2004	$ 3,224,719
2005	2,389,043
2006	2,218,500
2007	2,177,712
2008	2,122,491
2009 - 2010	4,228,426
Total minimum lease payments	$ 16,360,891

The total rent for the year ended June 30, 2003 was $ 3,433,123.

Note 12. Due to the Commonwealth of Pennsylvania

Amounts due to the Commonwealth of Pennsylvania as of June 30 represent the outstanding deficiency of reimbursable operating and capital expenditures compared to the advances received from the Commonwealth. These payables are included in accounts payable and accrued expenses on the statement of net assets. The following table presents outstanding amounts due to the Commonwealth by originating fiscal year:

	Total	**Current Portion**	**Long-Term Portion**
1993 - 1994	$ 56,772	$ 37,848	$ 18,924
1999 - 2000	230,867	230,867	0
2000 - 2001	260,043	260,043	0
2002 - 2003	422	422	0
	$ 548,104	$ 529,180	$ 18,924

Note 12. Due to the Commonwealth of Pennsylvania (Continued)

To facilitate the repayment of the amounts due to the Commonwealth relating to the 1993-94 liabilities, the College has agreed to quarterly payments of $ 9,462. Required payments as of June 30, 2003 are as follows:

Year Ending June 30	
2004	$ 37,848
2005	18,924
Total	$ 56,772

It is anticipated that payables for the other fiscal years will be withheld from next year's state appropriations once the state audit process is finalized. Under the terms of the Commonwealth reimbursement agreement, periodic audits are required and certain advances may be questioned as not being appropriate. Such audits could lead to reimbursement of the advances to the Commonwealth. College management believes that reimbursements, if any, will be immaterial.

Note 13. Risk Management

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

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

The College is self-insured for dental losses. The liability for estimated claims at June 30, 2003 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2003	**2002**
Beginning Balance	$ 69,521	$ 66,200
Claims made/Changes in estimates	321,397	281,406
Claims paid	(311,594)	(278,085)
Ending Balance	$ 79,324	$ 69,521

Through December 31, 2002, the college was insured for health costs though a retrospectively rated policy. A liability of $ 452,760 has been established for anticipated future claims, which are based on past experience. Effective January 1, 2003, a more traditional indemnity policy was implemented, which will not require the establishment of an estimated liability amount.

Note 14. Pension Benefits

The Public School Employees' Retirement System ("PSERS") and the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") are governmental cost-sharing multiple-employer defined benefit plans. PSERS provides retirement and disability benefits, legislative mandated *ad hoc* cost-of-living adjustments, and health care insurance premium

Note 14. Pension Benefits (Continued)

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

The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Most active members contribute at a rate of 5.25 percent of their qualifying compensation. However, effective January 1, 2002, employees could make an election to increase from 5.25% to 6.50%. Members joining the PSERS on or after July 22, 1983 contribute at a rate of 6.25 percent. However, effective January 1, 2002, employees could make an election to increase from 6.25% to 7.50%. The contribution rate for the College is an actuarially determined rate. The current rate at June 30, 2003 is .575 percent of annual covered payroll. The College's contributions to PSERS for the years ended June 30, 2003, 2002, and 2001, were $ 11,692, $ 10,719, and $ 16,870, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan.

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was zero as of June 30, 2003. The College's contributions to SERS for the years ended June 30, 2003, 2002, and 2001, were $ 0, $ 0, and $ 12,111, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing, multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a rate of 5 percent of their qualifying compensation; the College's contribution rate for the years ended June 30, 2003 and 2002 was 10 percent of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity. The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2003	**2002**	**2001**
College	$ 2,424,997	$ 2,198,234	$ 2,206,913
Employee	2,319,185	2,006,259	1,819,188

Note 15. Contingencies and Commitments

Contingencies

The nature of the educational industry is such that, from time to time, the College is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and/or destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

The College is currently in litigation involving the State Employee's Retirement System (SERS) and the purchase of past service credit by three employees. The SERS is contending that the College owes employer contributions for credits that the employees purchased. The case is currently being litigated at the Pennsylvania Supreme Court. The College believes it has a strong case in this matter. However, at this time, the ultimate outcome of this situation is unclear, and there have been no adjustments to these financial statements to reflect any potential liability.

Management does not expect that the resolution of any other outstanding claims and litigation will have a material adverse effect on the financial statements of the College.

Commitments

As of June 30, 2003, the College had commitments for the following projects:

	Total Estimated Costs	**Total Amount Paid as of June 30**
Bookstore renovations	$ 452,355	$ 315,330
Putting green	40,600	30,450
Roof replacement	257,146	221,201
	$ 750,101	$ 566,981

Note 16. State Appropriations

The following shows the detail of state appropriations earned for the year ended June 30, 2003.

Included in non-operating revenue:	
Social security reimbursement	$ 1,444,948
Tuition reimbursement	20,895,032
Sub-total	22,339,980
Included in capital appropriations:	
Debt reimbursement	2,221,007
Lease reimbursement	1,532,264
Sub-total	3,753,271
Total	$ 26,093,251

Note 17. Net Assets

College:

The following shows the details of net assets invested in capital assets, net of related debt.

Capital assets, net	$ 60,672,993
Bond costs, net	90,154
Bonds payable	(15,480,000)
Notes payable	(1,942,043)
Capital lease payable	(188,086)
Total	$ 43,153,018

The remaining net assets of the college are considered unrestricted.

HACC Foundation:

The Foundation's board of directors has chosen to place the following limitations on unrestricted net assets at June 30, 2003:

Designated for endowment purposes	$ 487,905
Undesignated	7,021,205
	$ 7,509,110

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2003:

Provide support for future years' activities	$ 5,733,562

Permanently restricted net assets are to provide a permanent endowment restricted for various purposes as follows at June 30, 2003:

Scholarships and awards	$ 6,629,105
Academic support	2,358,416
Capital expenditures	315,271
Other	513,430
	$ 9,816,222

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULE OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
For the year ended June 30, 2003

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	$ 25,116,333	$ 5,290,316	$ 3,123,033	$ 4,663,884	$ 0	$ 0	$ 220	$ 38,193,786
Research	0	0	3,473	674	0	0	0	4,147
Public Support	5,863	449	6,095	14,931	0	0	0	27,338
Academic Support	2,220,840	564,253	851,241	117,695	0	0	0	3,754,029
Student Services	4,253,258	1,127,819	394,370	480,877	0	0	(2,180)	6,254,144
Institutional Support	5,014,674	1,877,124	3,942,540	1,317,811	114	0	0	12,152,263
Operation and Maintenance of Plant	1,592,518	641,572	2,940,981	190,739	1,748,411	4,047,852	0	11,162,073
Student Aid	308,105	(7)	27,558	0	0	0	5,649,109	5,984,765
Auxiliary Enterprises	584,673	201,319	5,390,987	89,920	15,974	0	0	6,282,873
Total operating expenses	$ 39,096,264	$ 9,702,845	$ 16,680,278	$ 6,876,531	$ 1,764,499	$ 4,047,852	$ 5,647,149	$ 83,815,418
Interest expense								1,080,802
Total expenses								$ 84,896,220

HARRISBURG AREA COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Number		
Department of Education:				
Student Financial Aid:				
FSEOG Program	84.007	N/A	$	291,910
FWS Program	84.033	N/A		321,897
PELL Program	84.063	N/A		6,617,173
Perkins loan program	84.038	N/A		40,271
Total student financial aid				7,271,251
				.
Other:				
Strengthening Institutions	84.031A	N/A		210,053
Other Federal Assistance (passed through Pennsylvania Department of Education):				
AmeriCorp	94.006	N/A		33,590
Adult Basic Education	84.002	N/A		47,251
Vocational Educational Grants Perkins III	84.048	N/A		450,228
Title III-E Tech Prep Education	84.243	N/A		347,463
Library Service & Tech Grant	45.310	N/A		19,685
Total Department of Education				8,379,521
Department of Labor:				
Local workforce investment funding	17.258	N/A		150,647
Department of Health and Human Services				
Job retention, advancement grant	93.558	N/A		51,620
National Science Foundation				
ATE Regional Center for Nanofabrication Manufacturing Education	47.076	N/A		20,000
Total federal financial assistance			$	8,601,788

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. General Information

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of the Harrisburg Area Community College (the College). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

Note 2. Relationship to Basic Financial Statements

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the College. It is not intended to, and does not, present either the financial position, changes in fund balances, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's statement of revenues, expenses, and changes in net assets. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards, due to program expenditures exceeding grant or contract budget limitations which are not reported as expenditures in the Schedule of Expenditures of Federal Awards.

Note 3. Federal Student Loan Programs

The College administers the following federal loan program:

Total loan expenditures and disbursements of the Department of Education's student financial assistance program for the year ended June 30, 2003 are identified below:

	CFDA Number	**Disbursements**	
Perkins Loan Program	84.038	$ 35,582	New Loans
		4,689	Expenses
		$ 40,271	
Federal Stafford and PLUS loans	84.032	$ 16,243,108	Outstanding Loans

The College administers the Federal Perkins Loan Program via a third party processor; accordingly, the College's basic financial statements include the Federal Perkins advances from the U. S. Government and transactions. The balance of Federal Perkins loans outstanding as of June 30, 2003 was $ 141,587, and is included in the accompanying Statement of Net Assets.

For the Federal Family Education Loan Program (Stafford and PLUS), the College is only responsible for the performance of certain administrative duties and is not considered to be the lender of the funds; therefore, the net assets and transactions of this program are not included in the College's basic financial statements or in the schedule of expenditures of federal awards.

Note 4. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal awards activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

Note 5. Administrative Expenses

The expenditures in the accompanying Schedule of Expenditures of Federal Awards include an allocation of administrative expenses. Those allocations are based upon amounts permitted under each individual financial assistance program.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the financial statements of the Harrisburg Area Community College as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Harrisburg Area Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standard*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Harrisburg Area Community College in a separate letter dated October 3, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harrisburg Area Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Harrisburg Area Community College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1 and 2003-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Harrisburg Area Community College in a separate letter dated October 3, 2003.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 3, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

Compliance

We have audited the compliance of the Harrisburg Area Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Harrisburg Area Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Harrisburg Area Community College's management. Our responsibility is to express an opinion on the Harrisburg Area Community College's compliance based on our audit. We did not audit Harrisburg Area Community College's compliance with the requirements governing maintaining contact with the billing borrowers and processing deferment and cancellation requests and payments of the Federal Perkins Loan Program. Those requirements govern functions performed by AMS Servicing Group (AMS). AMS's compliance with the functions that it performs for Harrisburg Area Community College was audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the requirements performed by AMS, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Harrisburg Area Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Harrisburg Area Community College's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the Harrisburg Area Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Board of Trustees
Harrisburg Area Community College

Internal Control Over Compliance

The management of the Harrisburg Area Community College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Harrisburg Area Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Harrisburg Area Community College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition identified as 2003-3 described above is a material weakness.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 3, 2003

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

I. Summary of Auditor's Results:

Financial Statements:

(i)	Type of auditor's report issued:	**Unqualified**	
(ii)	Internal control over financial reporting: Material weakness(es) identified?	________yes	___X___no
	Reportable condition(s) identified not considered to be material weaknesses?	___X____yes	________None reported
(iii)	Noncompliance material to financial statements noted?	________yes	___X___no

Federal Awards:

(iv)	Internal control over major programs: Material weakness(es) identified?	________yes	___X___no
	Reportable condition(s) identified that are not considered to be material weaknesses?	___X____yes	________None reported
(v)	Type of auditor's report issued on compliance for major programs**:**	**Unqualified**	
(vi)	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	________yes	___X___no

(vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Aid:
84.007	FSEOG Program
84.063	PELL Program
84.033	FWS Program
84.638	Perkins Loan Program
	Other Programs:
84.048	Perkins III Vocational Education
84.243	Title III-E Tech Prep Education

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
(ix)	Auditee qualified as low-risk auditee?	________yes	___X___no

Part II

Financial Statement Findings Section:

Reference Number	Finding	Questioned Costs
2003-1 – Stafford Loan Funds - Repeat Comment		$ 0

Condition: The Stafford loan cash account should match the amount in the Stafford loan clearing account. At year-end, this amount was out of balance by approximately $ 46,800.

Criteria: Good internal controls include systematic reconciliations and approvals, and prompt correcting entries as necessary in order to provide proper management and maintain accountability to funding sources.

Cause: These accounts should be reconciled during the year to account for all Stafford monies; however, this reconciliation was not prepared.

Effect: At year end, the general ledger shows that $ 46,800 is available in cash funding but is not owed to some individual or party. This may not be the case, but with no reconciliation, it is impossible to determine.

Recommendation: As part of the student financial aid process, these accounts should be reviewed regularly and a reconciliation format should be created to facilitate this process.

HACC'S Response: Financial Aid personnel have already developed reporting routines to identify processing problems that affected the Stafford Loan accounts. Although this improvement is now reducing the potential frequency of HACC to maintain incorrect Stafford Loan cash-on-hand, further work is needed to provide a comprehensive solution which ensures annual reconciliation of funds to zero by June 30. The new Director of Financial Aid Services will provide this solution by initiating monthly reconciliation procedures for the Stafford loan accounts in coordination with HACC's Priority (Information Technology) Team.

Reference Number	Finding	Questioned Costs
2003-2 – Construction-in-process		$ 0

Condition: Through the review of capital asset procedures, it was determined that payments towards larger capital asset projects are being capitalized and depreciated before the asset is placed in service.

Criteria: Payments of this type should be capitalized as construction-in-process and depreciation should only begin once the asset is placed in service.

Cause: The fixed asset system is not being used properly to handle these types of payments.

Effect: For larger projects that take a significant amount of time to complete, depreciation expense would be overstated in the early stages of the life of the asset.

Recommendation: We suggest that a new general ledger fixed asset account be created to maintain construction-in-process until assets of this type are placed in service, and then depreciation can begin. Subsidiary depreciation schedules should not be updated until the asset is actually placed in service.

HACC's Response: Capital asset projects will be reviewed thoroughly to insure the assets are not depreciated prematurely with the fixed asset system. Construction in process accounts will be utilized to provide a more accurate accounting for these capital projects.

Part III

Federal Award Findings Section:

Reference Number	Finding	Questioned Costs

2003-3 – Student Financial Aid - Repeat Comment $ 0

Condition/Cause: Student financial aid transactions were reviewed and the following instances of noncompliance were identified:

A) Out of 14 Stafford loan returns to lenders:
   - 8 were not done timely.

B) Out of 15 new Stafford loans:
   - 1 was not posted timely to student's account.

Criteria: Federal guidelines restrict the amount of aid granted to students as well as the timing of disbursements to students and refunds to lenders.

Cause: Oversight issues apparently related to staff turnover problems and lack of experienced personnel in the financial aid department.

Effect: Unknown.

Recommendation: Greater care be taken to be sure similar noncompliance issues do not recur.

HACC'S Response: As part of a Corrective Action Plan, HACC has identified and will respond to the causes of the delays beyond the 30 day requirement. Financial Aid staff will meet with the Registration staff to ensure that controls are put in place to capture and record enrollment level appropriately. Additionally, Financial Aid staff will enforce a quicker calculation of Title IV refunds by increasing the frequency of reports that identify changes in enrollment level. Finally, staff will also review the length of the procedure to produce a check of returned funds in coordination with the Accounts Payable Office. If part of the delay is attributed to slow processing of check requests, a change to the procedure will ensure that returned Title IV funds are given priority and processed quickly.

HARRISBURG AREA COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Reference Number	Finding
	Matters noted at June 30, 2002.
2002-1	Stafford loan cash account does not match the Stafford loan clearing account.
	STATUS: This was not corrected in the current year. See finding 2003-1.
2002-2	Drawdown of SEOG and PELL funds was not completed on a timely basis following disbursement to student account.
	STATUS: This was an isolated situation and did not reoccur in the current year.
2002-3	Student financial aid transactions were reviewed and several instances of noncompliance were identified.
	STATUS: Instances of non-compliance continue to occur. See finding 2003-3.