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HARRISBURG AREA COMMUNITY COLLEGE

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JUNE 30, 2004

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Harrisburg Area Community College
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2004 and 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 years ended June 30, 2004 and June 30, 2003. It should be read in conjunction with the financial statements and notes that follow.

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.

Three financial statements are 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. The results for 2004 are compared to those for the 2003 fiscal year.

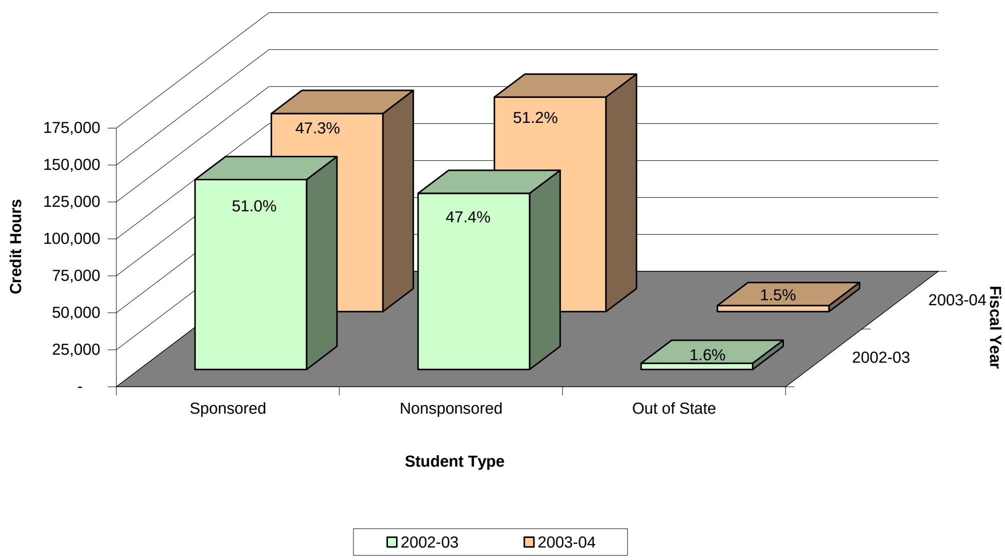
The College's basic financial statements contain information for both the primary institution and its component unit, the HACC Foundation. Management's discussion and analysis focuses on the primary institution. Separately issued financial statements are available for HACC Foundation by contacting Mr.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

Financial Highlights:

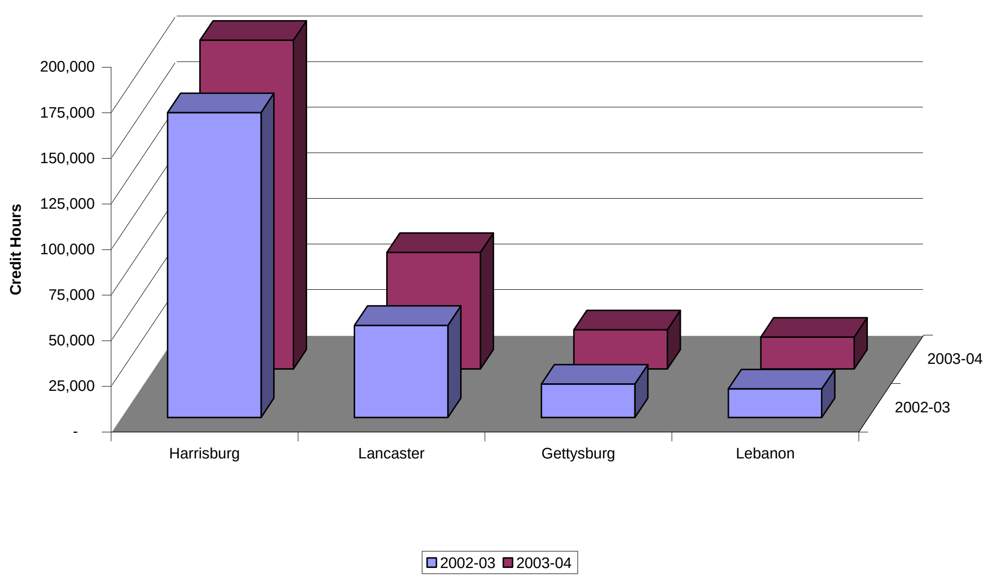
Credit hours increased from 251,777 in 2003 to 283,513, or 12.6%, in 2004. Course offerings were again expanded to accommodate demand, but further growth was sometimes limited due to lack of classroom space or qualified adjunct faculty to teach. Enrollment growth occurred at each campus location. We also saw our noncredit headcount (43,861) and associated state FTE (2,978) increase by 9.2% in 2004. A factor influencing this growth is the weakened economy which leads many adults to enroll in college to improve their current skills, or prepare for work in a new field.

In 2004 we saw sponsored student credit hours fall below 50% of total credit hour production. Sponsored students comprised 47.3% of total credit hours in 2004 as compared to 51.0% in 2003. This change shows the significant growth that has occurred at our regional campuses.

Credit Hour Production by Student Type



Credit Hour Enrollment by Campus



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. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution.

Net assets, which represent 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 statement of net assets as presenting information on assets and liabilities with the difference between the two being net assets, as of June 30, 2003 and 2004.

Net Assets
(In millions)

	2004	2003	Increase (Decrease) 2004 - 2003
Assets			
Current Assets	$30.9	$25.3	$5.6
Noncurrent Assets	61.1	60.8	0.3
Total Assets	92.0	86.1	5.9
Liabilities			
Current Liabilities	12.1	12.0	0.1
Noncurrent Liabilities	15.7	18.6	(2.9)
Total Liabilities	27.8	30.6	(2.8)
Net Assets			
Invested in Capital Assets, net of debt	46.2	43.1	3.1
Unrestricted	18.0	12.4	5.6
Total Net Assets	$64.2	$55.5	$8.7

In 2004 current assets increased significantly ($5.6 million) driven by enrollment growth. A 12.6% increase in credit hour production along with a 3.4% tuition increase are the driving force behind a $3.4 million increase in cash and cash equivalents. The other significant increase, a $1.7 million receivable due from the Commonwealth of Pennsylvania, is also enrollment driven. At this point in time, there has been no definitive notice from the Commonwealth whether the $1.7 million receivable will be paid to the College (see Note 12 to the financial statements).

The $2.9 million reduction in noncurrent liabilities between 2003 and 2004 is the 2004 payment of principal on existing notes and bonds.

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.

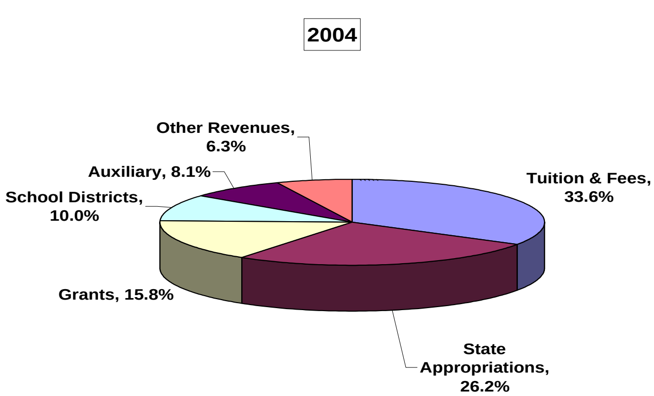
Operating revenues are those received by the College for directly providing goods and services. Nonoperating revenues are those that exclude a direct exchange of goods and services. State and School District appropriations are classified as nonoperating revenues since these governmental agencies do not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

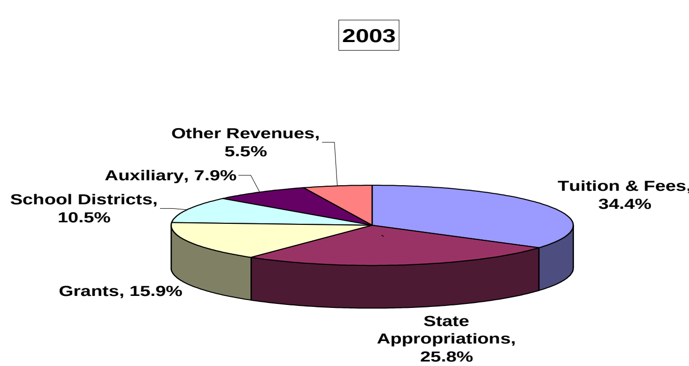
The following is a summarized version of the College's revenues, expenses and changes in net assets for years ended June 30, 2004 and 2003 and graphical representations of revenues and expenses by category.

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

	2004	2003	Increase (Decrease) 2004 - 2003
Operating Revenues	$61.6	$54.4	$7.2
Operating Expenses	93.6	83.8	9.8
Operating Income (Loss)	(32.0)	(29.4)	(2.6)
Nonoperating Revenues (net)	35.7	31.2	4.5
Net Income (Loss) Before Capital Contributions	3.7	1.8	1.9
Capital Contributions	5.0	5.8	(0.8)
Increase (Decrease) in Net Assets	$8.7	$7.6	$1.1

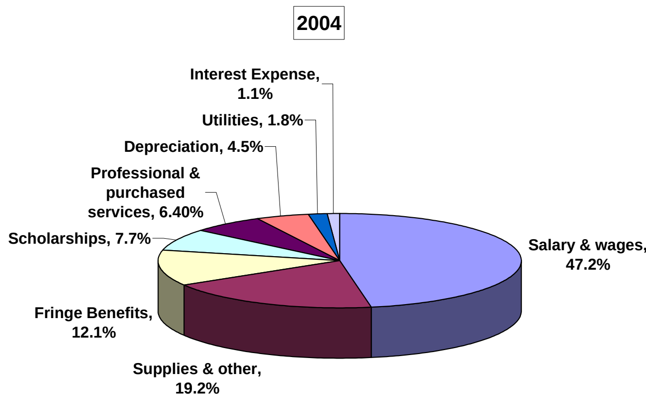
Total Operating and Nonoperating Revenue

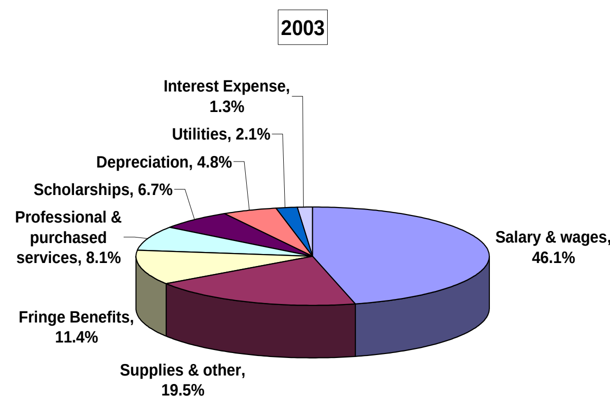




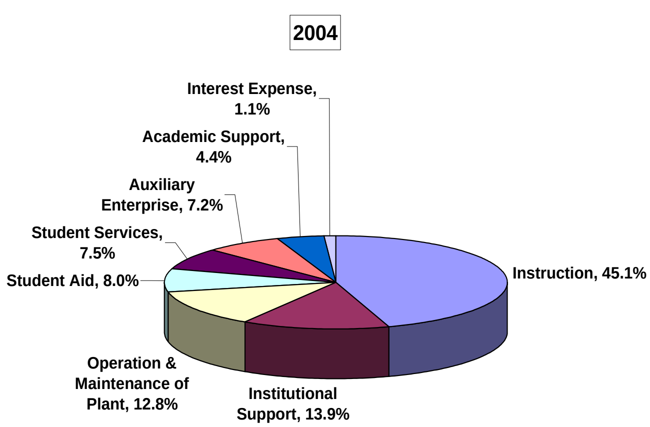
Operating revenues in 2004 were $7.2 million greater than 2003. This increase is again attributed to the growth in enrollments and increased tuition per credit hour to $73 in 2004 versus $70.50 in 2003. Of the 31,736 additional credit hours produced in 2004, 82% of this growth (26,027 credit hours) was generated by nonsponsored students. Each nonsponsored student pays two parts tuition or $146 per credit hour in 2004, where a sponsored student pays one part tuition, or $73 per credit hour in 2004, and receives local school district support for the other $73 per credit hour. The Commonwealth theoretically funds the remaining portion. Other factors leading to an increase in operating revenues in 2004 were increased PELL financial aid grants for students of $1.6 million. Bookstore sales of textbooks and general supplies exceeded 2003 by $1.1 million. This increase in revenue stems from both enrollment growth, and the College's decision to bring bookstore operations in-house at our Gettysburg and Lebanon campuses. As of June 30, 2004 Lancaster Campus bookstore service is still contracted to a consignment based third party vendor. Finally, the full year impact of our increase in the technology fee from $5 to $10 per credit hour in January 2003 resulted in a $0.7 million increase in other operating revenues.

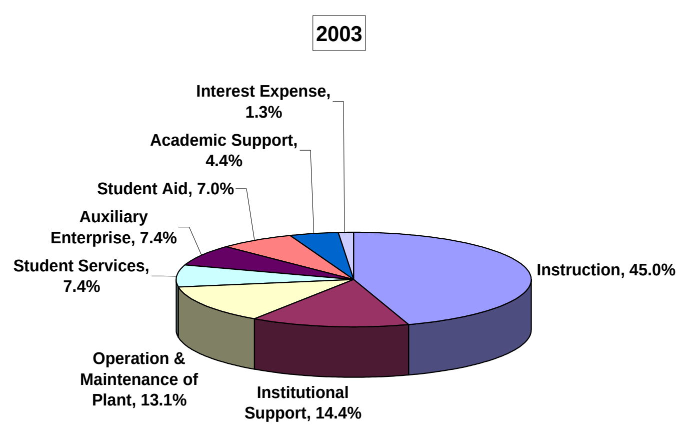
Total Operating Expenditures by Natural Source





Total Operating Expenditures by Function





The other side of the enrollment growth is shown in the $9.8 million increase in operating expense in 2004. As would be expected, most of this increase is in salary and benefits. A 3.9% salary increase in 2004 totaled $1.4 million. New full-time and part-time salaries accounted for $3.6 million. This salary increase is divided between growth of part-time adjunct faculty and faculty overloads to accommodate additional demand ($1.7 million), and new full-time and part-time (both temporary and permanent) faculty, administrative, and classified staff positions ($1.9 million). In the fringe benefit category the College saw a 20% increase to medical insurance costs ($0.7million). This increase would have been higher, but we had a negotiating opportunity to cap this increase when Blue Cross/Blue Shield split in 2003. Our increase was modest compared to other educational institutions in Central Pennsylvania. Salary drove the other notable increases in fringe benefits which were FICA ($0.4 million) and retirement ($0.4 million). Two other increases of note in operating expense are scholarships ($1.6 million), and additional building lease costs ($1 million). The additional lease expense in 2004 includes a 10-year lease at Penn Center in Harrisburg to accommodate expansion of nursing and other allied health programs, additional parking lots at the Lancaster Campus, and the commencement of payment on additional space at the Gettysburg Campus for its nursing program.

The $4.5 million increase in non-operating revenues reflects the additional state and local funding received based upon enrollment growth. Our local school district sponsors supported an additional 5,689 credit hours and a 3.4% tuition increase in 2004. State reimbursable FTE (credit and noncredit) increased from 12,624 to 14,093 or 11.6%. The state appropriation included in the financials is the total amount earned by the College at the legislated rate of $1,500 per FTE.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year. Continued enrollment growth generated both additional revenue and expense. At year end, there was an increase in net assets of $8.7 million which is $1.1 million more than the increase in 2003.

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 years ended June 30, 2004 and 2003.

Cash Flows
(In millions)

	2004	2003	Increase (Decrease) 2004 - 2003
Cash Provided (Used) By:			
Operating Activities	($27.8)	($25.1)	($2.7)
Noncapital Financing Activities	34.4	33.2	1.2
Capital Financing Activities	(3.4)	(3.9)	0.5
Investing Activities	0.2	0.2	-
Net Increase in Cash and Cash Equivalents	3.4	4.4	(1.0)
Cash and Cash Equivalents - Beginning of Year	16.1	11.7	4.4
Cash and Cash Equivalents - End of Year	$19.5	$16.1	$3.4

Capital Asset and Debt Administration:

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 7 and 8 of the financial statements.

During the year ended June 30, 2004, the College had total capital additions of approximately $4.4 million. This activity includes furniture, fixtures, and equipment (FF&E) related to the move of the nursing and other allied health programs to the leased Penn Center location in January 2004; acquisition of instructional and other equipment; and various other improvements on the College's campuses. Also included is construction in progress expense associated with the Phase II project at the Lancaster Campus, as well as architectural costs for the Select Medical Health Education Pavilion and Grace Milliman Pollock Childcare/Early Childhood Education Center.

In July 2004, the College issued $26.5 million in bonds through the State Public School Board Authority. The proceeds will fund several initiatives: building of the Select Medical Health Education Pavilion and Grace Milliman Pollock Childcare/Early Childhood Education Center on the Harrisburg Campus, FF&E for the Lancaster Campus Phase II project, Phase II energy savings projects, reimbursement to the College for technology infrastructure and Gettysburg Campus expansions the College funded in 2002 and 2003 in anticipation of future project approval by the state, and refinancing of the 1995C bonds resulting in a savings to the College. Recently there has been some suggestion that the state plans to withdraw its funding support of any capital projects (debt and lease) for which it provided letters of endorsement and a promise to fund 50% of project costs when state funding becomes available.

At the Lancaster Campus the second academic building and a maintenance building were completed and opened with the Fall 2004 semester.

The College is exploring the creation of a permanent site in York. We have been running evening classes at York area high schools and the demand for our services is high. Administration is currently working to obtain local area support to assist with capital costs associated with creating a permanent site that can provide day programs as well as offer students a full range of services.

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. In 2004 the state did issue endorsement letters supporting new mandated (leases, debt) capital projects and future funding of same. In addition to the non-mandated capital funding constraints, there is now concern that the State may not fully fund operating full-time equivalent students (FTE) in fiscal year 2004 and 2005, or the capital lease and debt projects they have endorsed.

The College's continued enrollment growth and pressing expansion needs to serve our customers compel us to continue 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 with the hope that state funding will eventually be made available. In addition the College continues to pursue alternative sources of revenue including funding through grants, capital campaigns, and partnerships with local businesses, hospitals and state agencies to continue to meet our mission to provide low cost education to all who seek it.

Overall, the College's current financial position is very strong, but as we plan for the future we remain mindful of state funding issues and enrollment trends.

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 as of and for the years ended June 30, 2004 and 2003, as listed in the 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 audits 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 audits provide 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, 2004 and 2003, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 to 9 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 required 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 1, 2004 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 that collectively comprise Harrisburg Area Community College's basic financial statements. 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. 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.

Chambersburg, Pennsylvania
October 1, 2004

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

	PRIMARY INSTITUTION 2004	PRIMARY INSTITUTION 2003	COMPONENT UNIT FOUNDATION 2004	COMPONENT UNIT FOUNDATION 2003
ASSETS				
Current Assets				
Cash and cash equivalents	$ 19,575,095	$ 16,139,423	$ 1,521,532	$ 159,327
Short-term investments	476,766	485,975	598,255	863,851
Accounts receivable, net	9,098,709	7,252,100	3,508,693	897,192
Loans receivable	23,386	25,306	0	0
Other assets	342,145	396,440	1,000	0
Inventories	1,108,692	934,746	0	0
Due from HACC Foundation	295,452	45,324	0	0
Total Current Assets	30,920,245	25,279,314	5,629,480	1,920,370
Non-current Assets				
Long-term investments	0	0	23,923,244	21,199,973
Loans receivable	226,371	135,969	0	0
Capital assets net of accumulated depreciation	60,887,135	60,672,993	0	0
Total Non-current Assets	61,113,506	60,808,962	23,923,244	21,199,973
Total Assets	$ 92,033,751	$ 86,088,276	$ 29,552,724	$ 23,120,343
LIABILITIES				
Current Liabilities				
Due to HACC	$ 0	$ 0	$ 295,452	$ 45,324
Accounts payable and accrued expenses	6,833,587	6,627,886	0	0
Deposits held in custody for others	332,561	295,272	0	0
Deferred revenue	1,509,728	1,790,521	14,126	16,125
Current portion of long term liabilities	3,429,903	3,230,592	0	0
Total Current Liabilities	12,105,779	11,944,271	309,578	61,449
Non-Current Liabilities				
Accounts payable and accrued expenses	0	18,924	0	0
Long term liabilities	15,656,919	18,609,047	0	0
Total Non-Current Liabilities	15,656,919	18,627,971	0	0
Total Liabilities	27,762,698	30,572,242	309,578	61,449
NET ASSETS				
Invested in capital assets, net of related debt	46,218,605	43,153,018	0	0
Restricted - nonexpendable	0	0	12,456,553	9,816,222
Restricted - expendable	0	0	9,231,298	5,733,562
Unrestricted	18,052,448	12,363,016	7,555,295	7,509,110
Total Net Assets	64,271,053	55,516,034	29,243,146	23,058,894
Total Liabilities and Net Assets	$ 92,033,751	$ 86,088,276	$ 29,552,724	$ 23,120,343

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the years ended June 30, 2004 and 2003

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2004	**2003**	**2004**	**2003**
REVENUES				
Operating Revenues				
Student tuition and fees	$ 37,983,583	$ 33,076,801	$ 0	$ 0
Scholarship allowance and discounts	(4,966,037)	(3,298,147)	0	0
Federal grants	10,330,760	8,412,436	0	0
State and local grants	4,906,177	5,061,586	0	0
Nongovernmental grants	319,455	343,770	0	0
Sales and services of auxiliary enterprises	8,002,809	6,850,331	0	0
Other operating revenues	5,040,740	3,944,982	0	0
Contributions	0	0	4,743,728	1,538,705
Investment income, net of investment expense of $ 49,660 - 2004 and $ 56,383 - 2003	0	0	423,920	452,441
Realized and unrealized gains (losses) on investments	0	0	3,017,974	(339,489)
Total Operating Revenues	61,617,487	54,391,759	8,185,622	1,651,657
EXPENSES				
Operating Expenses				
Salaries and wages	44,657,874	39,096,264	140,690	140,344
Fringe benefits and payroll taxes	11,410,727	9,702,845	33,526	32,636
Supplies and other expense	18,171,958	16,680,278	103,650	94,553
Professional and purchased services	6,065,510	6,876,531	60,458	28,909
Utilities	1,737,975	1,764,499	0	0
Depreciation and amortization	4,307,498	4,047,852	0	0
Scholarships	7,264,285	5,647,149	415,607	222,604
Contributions and grants	0	0	1,247,439	994,890
Total Operating Expenses	93,615,827	83,815,418	2,001,370	1,513,936
Operating Income (Loss)	(31,998,340)	(29,423,659)	6,184,252	137,721
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	25,745,320	22,339,980	0	0
Local appropriations	9,863,235	9,133,031	0	0
Gifts	907,443	601,372	0	0
Investment income, net of investment expense of $ 11,756 - 2004, $ 10,770 - 2003	218,996	248,513	0	0
Interest on capital asset related debt	(1,018,045)	(1,080,802)	0	0
Total Non-Operating Revenues, net	35,716,949	31,242,094	0	0
Net Income Before Capital Contributions	3,718,609	1,818,435	6,184,252	137,721
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	200,000	200,000	0	0
Capital appropriations - state sources	3,741,679	3,753,271	0	0
Capital grants and gifts	1,094,731	1,854,351	0	0
Total Capital Contributions	5,036,410	5,807,622	0	0
Increase in Net Assets	8,755,019	7,626,057	6,184,252	137,721
Net Assets - Beginning of Year	55,516,034	47,889,977	23,058,894	22,921,173
Net Assets - End of Year	$ 64,271,053	$ 55,516,034	$ 29,243,146	$ 23,058,894

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2004 and 2003

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2004	**2003**	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments received for tuition and fees	$ 33,845,965	$ 30,784,135	$ 0	$ 0
Payments received from grants and contracts	15,679,228	12,807,507	0	0
Payments received from auxiliary enterprise charges	8,154,863	6,601,009	0	0
Payments received from other revenues	4,982,641	3,926,132	0	0
Payments received from donors (temporary and unrestricted)	0	0	521,868	125,257
Payments received from investment activities	0	0	411,099	466,435
Payments to and on behalf of employees	(55,524,044)	(48,955,949)	(174,216)	(172,980)
Payments to suppliers for goods and services	(27,535,066)	(24,190,549)	(170,209)	(121,406)
Payments for contributions and grants	0	0	(1,029,265)	(829,202)
Payments for financial aid and scholarships	(7,409,790)	(6,047,877)	(374,607)	(230,599)
Net cash used in operating activities	(27,806,203)	(25,075,592)	(815,330)	(762,495)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	23,613,163	24,015,579	0	0
Local appropriations	9,932,013	8,564,777	0	0
Gifts received	887,278	656,574	0	0
Collection of permanently restricted support	0	0	1,617,236	1,278,978
Net cash provided by noncapital financing activities	34,432,454	33,236,930	1,617,236	1,278,978
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
State and local appropriations	3,941,257	3,755,995	0	0
Capital grants and gifts received	1,002,483	906,526	0	0
Purchases of capital assets	(4,524,819)	(4,217,223)	0	0
Principal paid on bonds payable, notes payable, and capital leases	(2,908,649)	(3,284,382)	0	0
Interest paid on bonds payable, notes payable, and capital leases	(925,540)	(1,080,802)	0	0
Net cash used by capital financing activities	(3,415,268)	(3,919,886)	0	0
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	0	0	(19,075,417)	(23,244,201)
Proceeds from sale/maturities of investments	0	0	19,635,716	22,789,434
Investment income	224,689	244,702	0	0
Net cash provided by investing activities	224,689	244,702	560,299	(454,767)
Increase in cash and cash equivalents	3,435,672	4,486,154	1,362,205	61,716
Cash and Cash equivalents - Beginning of Year	16,139,423	11,653,269	159,327	97,611
Cash and Cash equivalents - End of Year	$ 19,575,095	$ 16,139,423	$ 1,521,532	$ 159,327

The Notes to Financial Statements are an integral part of these statements.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS - CONTINUED
For the years ended June 30, 2004 and 2003

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2004	**2003**	**2004**	**2003**
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	($ 31,998,340)	($ 29,423,659)	$ 6,184,252	$ 137,721
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Depreciation and amortization expense	4,307,498	4,047,852	0	0
Loss on disposal of capital assets	4,631	10,726	0	0
Realized and unrealized (gain) loss on investments	0	0	(3,017,974)	339,489
Contributions restricted for long-term investment	0	0	(1,617,236)	(1,278,978)
(Increase) Decrease in:				
Accounts receivable	461,773	(144,964)	(2,611,501)	(140,132)
Inventory	(173,946)	(288,248)	0	0
Other assets	2,009	195,486	(1,000)	249,300
Increase (Decrease) in:				
Deferred revenue	0	0	(2,000)	16,125
Accounts payable and accrued expense	(447,117)	516,733	250,129	(86,020)
Deposits	37,289	10,482	0	0
Net cash used in operating activities	($ 27,806,203)	($ 25,075,592)	($ 815,330)	($ 762,495)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS				
Capital gifts of equipment and buildings	$ 96,900	$ 948,172	$ 0	$ 0
Capital assets acquired through capital leases	$ 31,548	$ 211,187	$ 0	$ 0
Realized and unrealized gains (losses) on investments	($ 9,209)	$ 8,674	$ 3,017,974	($ 339,489)

The Notes to Financial Statements are an integral part of these statements.

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. Regional 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 – GASB Statement No. 39, Determining Whether Certain Organizations are Component Units which amends Statement No. 14, The Financial Reporting Entity, provides 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 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 in accordance with GASB standards. 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 HACC Foundation 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 years presented.

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.

Total Return Policy - HACC Foundation **-** During the year ended June 30, 2003, the Foundation adopted a total return policy for its permanently restricted endowment funds and a separate trust was created to maintain the investments for these funds. Based on the policy and the revocable trust agreement, 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, 2004 and 2003. 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.

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.

Note 1. Summary Of Significant Accounting Policies (Continued)

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.

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.

Note 1. Summary Of Significant Accounting Policies (Continued)

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 12 for additional information.

Note 2. Cash and Cash Equivalents

The College's bank balances at June 30, 2004 and 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.

(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.

	2004				
	Bank Balance				
	Category 1	Category 3	Uncatagorized	Total	Carrying Amount
(A) Cash	$ 143,703	$ 7,735,843	$ 0	$ 7,879,546	$ 7,005,988
(B) PSDLAF	0	0	4,873,992	0	4,873,992
(B) Commonfund short-term investments	0	0	7,695,115	0	7,695,115
Total	$ 143,703	$ 7,735,843	$ 12,569,107	$ 7,879,546	$ 19,575,095

Note 2. **Cash and Cash Equivalents (Continued)**

	2003				
	Bank Balance				
	Category 1	Category 3	Uncatagorized	Total	Carrying Amount
(A) Cash	$ 178,590	$ 7,209,022	$ 0	$ 7,387,612	$ 6,232,560
(B) PSDLAF	0	0	5,305,614	0	5,305,614
(B) Commonfund short-term investments	0	0	4,601,249	0	4,601,249
Total	$ 178,590	$ 7,209,022	$ 9,906,863	$ 7,387,612	$ 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, 2004 and 2003:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2004				
Mutual funds – Commonfund Intermediate	$ 500,000	$ 0	($ 23,234)	$ 476,766
2003				
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.

Note 3. Investments (Continued)

Investments of the HACC Foundation as of June 30, 2004 and 2003 are comprised of the following:

	Cost	Market Value	Unrealized Gains (Losses)
		2004	
Money market funds	$ 940,159	$ 940,159	$ 0
Equities	16,072,129	18,230,733	2,158,604
Government obligations	3,563,133	3,526,319	(36,814)
Corporate bonds	1,827,877	1,824,288	(3,589)
	$ 22,403,298	$ 24,521,499	$ 2,118,201

	Cost	Market Value	Unrealized Gains (Losses)
		2003	
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)

Investments In An Unrealized Loss Position - HACC Foundation

The following table shows investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2004.

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government obligations	$ 473,513	($ 15,924)	$ 2,231,560	($ 42,979)	$ 2,705,073	($ 58,903)
Corporate bonds	51,473	(2,119)	599,222	(20,141)	650,695	(22,260)
Equities	1,365,109	(323,379)	2,929,421	(143,176)	4,294,530	(466,555)
Total temporarily impaired securities	$ 1,890,095	($ 341,422)	$ 5,760,203	($ 206,296)	$ 7,650,298	($ 547,718)

As of June 30, 2004 there were a total of 150 investments in an unrealized loss position. There were 40 investments in a loss position more than one year. Management considers several factors in determining that these losses are temporary, such as market analysis, interest rate fluctuations, security price volatility, and specific security analysis.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	College		HACC Foundation	
	2004	2003	2004	2003
Student Tuition and fees	$ 4,411,754	$ 4,044,483	$ 0	$ 0
Allowance for doubtful accounts	(300,000)	(250,000)	0	0
Grants and contracts receivable	2,113,412	2,442,154	0	0
State appropriations receivable	1,747,517	76,487	0	0
Bookstore receivables	717,606	773,141	0	0
Other receivables	408,420	165,835	62,915	50,094
Pledges receivables	0	0	3,286,179	699,361
Charitable remainder annuity trust held by outside party	0	0	159,599	147,737
Total	$ 9,098,709	$ 7,252,100	$ 3,508,693	$ 897,192

Bookstore receivables include $ 603,354 and $ 511,271 in vendor credit memos at June 30, 2004 and 2003, respectively.

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, 2004 and 2003. The unamortized discount was $ 642,108 and $ 145,595 at June 30, 2004 and 2003.

Note 5. Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2004 and 2003:

2004	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land	$ 1,639,470	$ 0	$ 0	$ 1,639,470
Building	51,483,793	0	0	51,483,793
Improvements - land	912,179	25,549	0	937,728
Improvements - building	13,834,196	383,938	0	14,218,134
Improvements - leasehold	2,796,669	231,606	0	3,028,275
Instructional equipment	16,677,400	819,839	0	17,497,239
Non-instructional equipment	5,362,936	1,281,506	(11,933)	6,632,509
Construction in progress	0	1,758,178	0	1,758,178
Total cost	92,706,643	4,500,616	(11,933)	97,195,326
Less accumulated depreciation:				
Building	(16,148,141)	(1,287,721)	0	(17,435,862)
Improvements - land	(105,302)	(47,715)	0	(153,017)
Improvements - building	(3,869,461)	(747,812)	0	(4,617,273)
Improvements - leasehold	(214,196)	(141,641)	0	(355,837)
Instructional equipment	(7,382,735)	(464,889)	0	(7,847,624)
Non-instructional equipment	(4,313,815)	(1,592,065)	7,302	(5,898,578)
Total accumulated depreciation	(32,033,650)	(4,281,843)	7,302	(36,308,191)
Capital assets, net	$ 60,672,993	$ 218,773	($ 4,631)	$ 60,887,135

Note 5. Capital Assets (Continued)

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 of the College at June 30 consist of:

	2004	2003
Prepaid expenses	$ 277,647	$ 306,286
Bond issue costs	236,572	236,572
Accumulated amortization - bond issue costs	(172,074)	(164,418)
	$ 342,145	$ 396,440

Note 7. Changes in Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2004 and 2003:

2004

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 188,086	$ 31,548	($ 42,105)	$ 177,529	$ 46,665	$ 130,864
Bonds and notes payable:						
Series of 1991 D	605,000	0	(605,000)	0	0	0
Series of 1995 C and D	14,135,000	0	(1,255,000)	12,880,000	1,965,000	10,915,000
Series of 1998 N	740,000	0	(365,000)	375,000	375,000	0
Note payable - 2001	1,942,043	0	(641,544)	1,300,499	672,590	627,909
Total leases and bonds/notes payable	17,610,129	31,548	(2,908,649)	14,733,028	3,059,255	11,673,773
Other liabilities:						
Compensated absences:						
Vacation leave	1,581,172	417,674	(123,943)	1,874,903	156,749	1,718,154
Sick leave	2,278,652	135,260	(164,746)	2,249,166	120,655	2,128,511
Early retirement payable	369,689	7,643	(147,607)	229,725	93,244	136,481
Total other liabilities	4,229,513	560,577	(436,296)	4,353,794	370,648	3,983,146
Total long-term liabilities	$ 21,839,642	$ 592,125	($ 3,344,945)	$ 19,086,822	$ 3,429,903	$ 15,656,919

2003

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

Note 7. Changes in Long-Term Liabilities (Continued)

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2004 and 2003 consist of the following:

	2004	2003
1991 D, issued $ 11,195,000 in May 1991; 6.40% - 6.75%; interest and principal payable semi-annually through April 1, 2011	$ 0	$ 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	3,040,000	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	9,840,000	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	375,000	740,000
Total bonds payable	$ 13,255,000	$ 15,480,000

Subsequent Event

Subsequent to year-end, on July 15, 2004, the College issued the 2004 bonds in the amount of $ 26,530,000. This was used to refinance the 1995C bonds and provide finding for capital projects the college is currently undertaking.

Future Maturities

The schedule shown below excludes the 1995C bonds and includes the 2004 bond issue in order to properly reflect the future debt service of the College.

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. Since there is no certainty that this will apply to new monies borrowed in the 2004 issue, no state share has been allocated to this portion of the debt. 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
2005	$ 1,211,530	$ 371,662	$ 2,728,470	$ 851,726	$ 3,940,000	$ 1,223,388	$ 5,163,388
2006	1,077,484	312,703	2,472,516	1,042,661	3,550,000	1,355,364	4,905,364
2007	1,130,735	257,010	2,549,265	969,946	3,680,000	1,226,956	4,906,956
2008	1,197,157	190,627	2,642,843	872,661	3,840,000	1,063,288	4,903,288
2009	827,946	135,121	2,302,054	782,846	3,130,000	917,967	4,047,967
2010-2014	1,497,660	136,636	10,042,340	2,684,988	11,540,000	2,821,624	14,361,624
2015-2019	0	0	3,150,000	1,388,885	3,150,000	1,388,885	4,538,885
2020-2024	0	0	3,915,000	629,990	3,915,000	629,990	4,544,990
Total	$ 6,942,512	$ 1,403,759	$ 29,802,488	$ 9,223,703	$ 36,745,000	$ 10,627,462	$ 47,372,462

Note 7. Changes in Long-Term Liabilities (Continued)

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 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 June 30	State Share Principal	State Share Interest	College Share Principal	College Share Interest	Total Principal	Total Interest	Total
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	$ 650,250	$ 37,787	$ 650,249	$ 37,786	$ 1,300,499	$ 75,573	$ 1,376,072

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:

2005	$ 104,730
2006	41,132
2007	39,366
2008	40,998
2009	31,094
2010	772
Total	$ 258,092

The estimated ERSIP liability is discounted at a rate of 5.0% and is $ 229,725 and $ 369,686 at June 30, 2004 and 2003, respectively.

Note 8. Leases

Capital Leases:

The College has entered into capital leases for certain equipment and vehicles. At June 30, the leased assets are as follows:

	2004	2003
Amount capitalized	$ 242,735	$ 211,187
Accumulated amortization	50,398	17,559
Net book value	$ 192,337	$ 193,588

Amortization expense is included with depreciation expense.

Note 8. Leases (Continued)

The future minimum lease payments under capital leases as of June 30, 2004 are as follows:

2005	$ 53,530
2006	53,530
2007	53,530
2008	28,511
2009	3,699
	192,800
Amount representing interest	(15,273)
	$ 177,527

Operating Leases:

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

2005	$ 4,031,337
2006	3,856,955
2007	3,571,217
2008	3,217,061
2009	3,200,515
2010 - 2014	15,084,243
2015 - 2019	9,245,345
2020 - 2024	2,970,347
2025 - 2026	264,157
Total minimum lease payments	$ 45,441,177

The total rent for the years ended June 30, 2004 and 2003 was $ 4,483,425 and $ 3,433,123, respectively.

Note 9. 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
		June 30, 2004	
1993 - 1994	$ 18,924	$ 18,924	$ 0
2001 - 2002	47,914	47,914	0
	$ 66,838	$ 66,838	$ 0
		June 30,2003	
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

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.

Note 9. Due to the Commonwealth of Pennsylvania (Continued)

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 10. 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, 2004 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2004	**2003**
Beginning Balance	$ 79,324	$ 69,521
Claims made/Changes in estimates	337,779	321,397
Claims paid	(333,682)	(311,594)
Ending Balance	$ 83,421	$ 79,324

Through December 31, 2002, the college was insured for health costs though a retrospectively rated policy. At June 30, 2003, a liability of $ 452,760 was established for anticipated future claims, which are based on past experience. Effective January 1, 2003, a more traditional indemnity policy was implemented, which does not require the establishment of an estimated liability amount.

Note 11. 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 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.

Note 11. Pension Benefits (Continued)

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 rate at June 30, 2004 and 2003 was 1.885 and .575 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2004, 2003, and 2002, were $ 40,190, $ 11,692, and $ 10,719, 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 .41 percent for Class A and .50 percent for Class AA and 0 percent as of June 30, 2004 and 2003, respectively. The College's contributions to SERS for the years ended June 30, 2004, 2003, and 2002, were $ 14,776, $ 0, and $ 0, 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:

	2004	**2003**	**2002**
College	$ 2,732,328	$ 2,424,997	$ 2,198,234
Employees	2,660,022	2,319,185	2,006,259

Note 12. 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.

Note 12. Contingencies and Commitments (Continued)

The College has been involved in litigation involving the State Employee's Retirement System (SERS) and the purchase of past service credit by three employees. The SERS has contended that the College owes employer contributions of $ 7,838 for credits that the employees purchased.

The Commonwealth Court ultimately ruled in favor of SERS, and the College's Petition for Writ of Certiorari with the Pennsylvania Supreme Court was denied. Depending on the number of College employees who choose to "buy back" prior government service with respect to SERS, the cost could have a material financial impact on HACC. However, the amount of potential impact cannot be estimated, and there have been no adjustments to these financial statements to reflect any potential liability.

Accounts receivable on the Statement of Net Assets and state appropriation revenue on the Statement of Revenues, Expenses, and Changes in Net Assets includes $ 1,747,517 for state reimbursement based on the FTE (full-time equivalent) reconciliation that is performed at year-end. Current state law and past practice dictates that this money will be received. However, there is currently discussion at the state level that indicates that this money may not be received in its entirety. The ultimate outcome of this situation cannot currently be determined and accordingly no entries on these financial statements have been recorded.

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, 2004, the College had commitments for the following projects:

	Total estimated costs	Total costs incurred as of June 30, 2004
Health education pavilion	$ 8,813,513	$ 379,353
Childcare and early childhood education center	177,421	148,606
Lancaster phase 1	160,257	38,853
Lancaster phase 2	1,222,295	427,103
Lancaster - Facilities management department	212,948	21,867
	$ 10,586,434	$ 1,015,782

Note 13. State Appropriations

The following shows the detail of state appropriations earned for the years ended June 30:

	2004	2003
Included in non-operating revenue:		
Social security reimbursement	$ 1,616,156	$ 1,444,948
Tuition reimbursement	24,129,164	20,895,032
Sub-total	25,745,320	22,339,980
Included in capital appropriations:		
Debt reimbursement	1,949,541	2,221,007
Lease reimbursement	1,792,138	1,532,264
Sub-total	3,741,679	3,753,271
Total	$ 29,486,999	$ 26,093,251

Note 14. Net Assets

College:

The following shows the details of net assets invested in capital assets, net of related debt, at June 30:

	2004	2003
Capital assets, net	$ 60,887,135	$ 60,672,993
Bond costs, net	64,498	90,154
Bonds payable	(13,255,000)	(15,480,000)
Notes payable	(1,300,499)	(1,942,043)
Capital lease payable	(177,529)	(188,086)
Total	$ 46,218,605	$ 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:

	2004	2003
Designated for endowment purposes	$ 584,675	$ 487,905
Undesignated	6,970,620	7,021,205
	$ 7,555,295	$ 7,509,110

Temporarily restricted net assets (restricted - expendable) are available for the following purposes or periods at June 30:

	2004	2003
Provide support for future years' activities	$ 9,231,298	$ 5,733,562

Permanently restricted net assets (restricted - non-expendable) are to provide a permanent endowment restricted for various purposes as follows at June 30:

	2004	2003
Scholarships and awards	$ 8,251,868	$ 6,629,105
Academic support	2,555,533	2,358,416
Capital expenditures	1,084,278	315,271
Other	564,874	513,430
	$ 12,456,553	$ 9,816,222

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
For the years ended June 30, 2004 and 2003

2004

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	$ 29,197,043	$ 6,369,521	$ 3,537,748	$ 3,546,572	$ 0	$ 0	$ 1,540	$ 42,652,424
Public Support	0	0	493	291	0	0	0	784
Academic Support	2,419,532	634,971	920,415	162,211	0	0	0	4,137,129
Student Services	4,923,718	1,327,151	424,986	465,617	0	0	0	7,141,472
Institutional Support	5,354,095	2,125,543	4,149,999	1,524,207	0	0	0	13,153,844
Operation and Maintenance of Plant	1,822,092	737,153	3,225,753	289,670	1,722,726	4,307,498	0	12,104,892
Student Aid	304,090	0	0	0	0	0	7,262,745	7,566,835
Auxiliary Enterprises	637,304	216,388	5,912,564	76,942	15,249	0	0	6,858,447
Total operating expenses	$ 44,657,874	$ 11,410,727	$ 18,171,958	$ 6,065,510	$ 1,737,975	$ 4,307,498	$ 7,264,285	$ 93,615,827
Interest expense								1,018,045
Total expenses								$ 94,633,872

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, 2004

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	$ 260,306
FWS Program	84.033	N/A	319,454
PELL Program	84.063	N/A	8,179,917
Perkins loan program	84.038	N/A	123,262
Total student financial aid			8,882,939
Other:			
Strengthening Institutions	84.031A	N/A	105,898
Other Federal Assistance (passed through Pennsylvania Department of Education):			
AmeriCorp	94.006	N/A	31,837
Adult Basic Education	84.002	N/A	44,342
Vocational Educational Grants Perkins III	84.048	N/A	478,168
Title III-E Tech Prep Education	84.243	N/A	347,669
Library Service & Tech Grant	45.310	N/A	40,285
Total Department of Education			9,931,138
Department of Labor:			
Culinary arts training prog. - Dept. of Corrections	16.579	N/A	40,679
Regional skills specialist services	17.260	N/A	147,349
Local workforce investment funding	17.258	N/A	350,000
Total Department of Labor			538,028
Department of Health and Human Services			
Job retention, advancement grant	93.558	N/A	62,322
National Science Foundation			
ATE Regional Center for Nanofabrication Manufacturing Education	47.076	N/A	34,925
Total federal financial assistance			$ 10,566,413

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

Total loan expenditures and disbursements of the Department of Education's student financial assistance program for the year ended June 30, 2004 are identified below:

	CFDA Number	Disbursements	
Perkins Loan Program	84.038	$ 119,479	New Loans
		3,783	Expenses
		$ 123,262	
Federal Stafford and PLUS loans	84.032	$ 23,861,342	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, 2004 was $ 221,702, 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE 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, 2004, and have issued our report thereon dated October 1, 2004. 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.

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 an opinion 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 item 2004-1.

A material weakness is a reportable 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 caused by error or fraud 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 the reportable condition described above is not a material weakness. 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 1, 2004.

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 grant agreements, 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 Standards.* 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 1, 2004.

Board of Trustees
Harrisburg Area Community College

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.

Chambersburg, Pennsylvania
October 1, 2004

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, 2004. 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 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, 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, 2004.

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.

Board of Trustees
Harrisburg Area Community College

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

Chambersburg, Pennsylvania
October 1, 2004

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

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?	________yes	___X___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
17.258	Local Workforce Investment Funding

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

Part II

Financial Statement Findings Section:

Reference Number	Finding	Questioned Costs
2004-1 – 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 $ 62,900.

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 there is a liability that is $ 62,900 greater than the available cash funding. 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: Harrisburg Area Community College continues to work to resolve the amounts that do not match between the Stafford loan cash and the Stafford loan clearing account. In addition to the work mentioned in 2003-1, the use of loan aging reports developed in June of 2003 have now been extended and used to identify potential discrepancies for FY00, FY01, and FY02. These reports run in August of 2004, are being reviewed to corroborate data from the student's account, loan processing screens in the College's administrative software system, and the external Pennsylvania Higher Education Assistance Agency system (AES/PHEAA). HACC has requested assistance from the Regional Manager of Pennsylvania School Services at AES/PHEAA. Additionally, HACC administrative staff met with Information Technology department staff to develop a new automated program to monitor movement of loan-related cash to promote more timely reconciliation. This work should be concluded during the current semester.

HARRISBURG AREA COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Reference Number	Finding
	Matters noted at June 30, 2003.
2003-1	Stafford loan cash account does not match the Stafford loan clearing account.
	STATUS: This issue was not fully resolved in the current year. See finding 2004-1.
2003-2	Depreciation expense was being recorded in construction-in-process before it was placed in service.
	STATUS: This was corrected during the current year.
2003-3	Student financial aid transactions were reviewed and several instances of noncompliance were identified.
	STATUS: There was significant improvement in the internal control and overall monitoring of student financial aid transactions, with only one minor instance of non-compliance found during the current year (reported in separate management letter).