## *C O N T E N T S*

***HARRISBURG AREA COMMUNITY COLLEGE***

***LIST OF REPORT DISTRIBUTION***

***JUNE 30, 2005***

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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

## *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, 2005 and 2004, 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 opinions 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 opinions.

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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2005 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 considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 to 12 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.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Trustees
Harrisburg Area Community College

Our audit was conducted 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 basic financial statements taken as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 11, 2005

**Harrisburg Area Community College**
**Management's Discussion and Analysis**
**Fiscal Years Ended June 30, 2005, 2004, and 2003**

## Introduction:

The following management discussion and analysis (MD&A) provides management's view of the financial position of Harrisburg Area Community College (HACC) as of June 30, 2005 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2004 and 2003. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of HACC's financial activities based on currently known facts, decisions, and conditions. Management has prepared this analysis and is responsible for the completeness and fairness of the information contained therein. The MD&A consists of highly summarized information and should be read in conjunction with the financial statements and notes thereto, which follow this section.

HACC's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented to focus on 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 basic financial statements contain information for both the primary institution and its component unit, the HACC Foundation. The MD&A discussion and analysis focuses on the primary institution. Separately issued financial statements are available for HACC Foundation by contacting Mr. George A. Franklin, Jr., Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

## Financial Highlights:

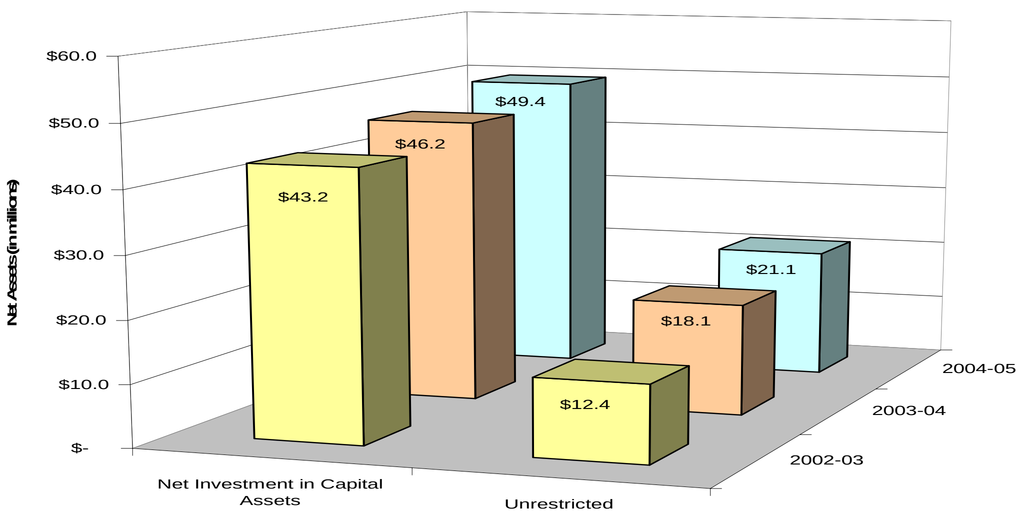
HACC's financial position remained strong as of June 30, 2005. Net assets increased $6.3 million over the prior year.

At June 30, 2005 HACC's assets of $123.4 million exceeded its liabilities of $52.9 million by $70.5 million, an increase over the prior year of $6.3 million. At June 30, 2004, assets of $92.0 million exceeded liabilities of $27.8 million by $64.2 million, an increase over the prior year of $8.7 million. 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 related debt, provides the College's equity in property, plant and equipment it owns. The second category, unrestricted net assets, is available to use for any lawful purpose of the College. The following table and graph summarizes the College's statement of net assets by category for the fiscal years ended June 30 2005, 2004 and 2003.

***Net Assets as of June 30***
**(In millions)**

| | 2005 | 2004 | Increase (Decrease) 2005 - 2004 | 2003 | Increase (Decrease) 2004 - 2003 |
|---|---|---|---|---|---|
| Invested in capital assets, net of related debt | $49.4 | $46.2 | $3.2 | $43.1 | $3.1 |
| Unrestricted | 21.1 | 18.0 | 3.1 | 12.4 | 5.6 |
| Total Net Assets | $70.5 | $64.2 | $6.3 | $55.5 | $8.7 |

**Comparison of Net Assets Fiscal Years 2003, 2004, 2005**



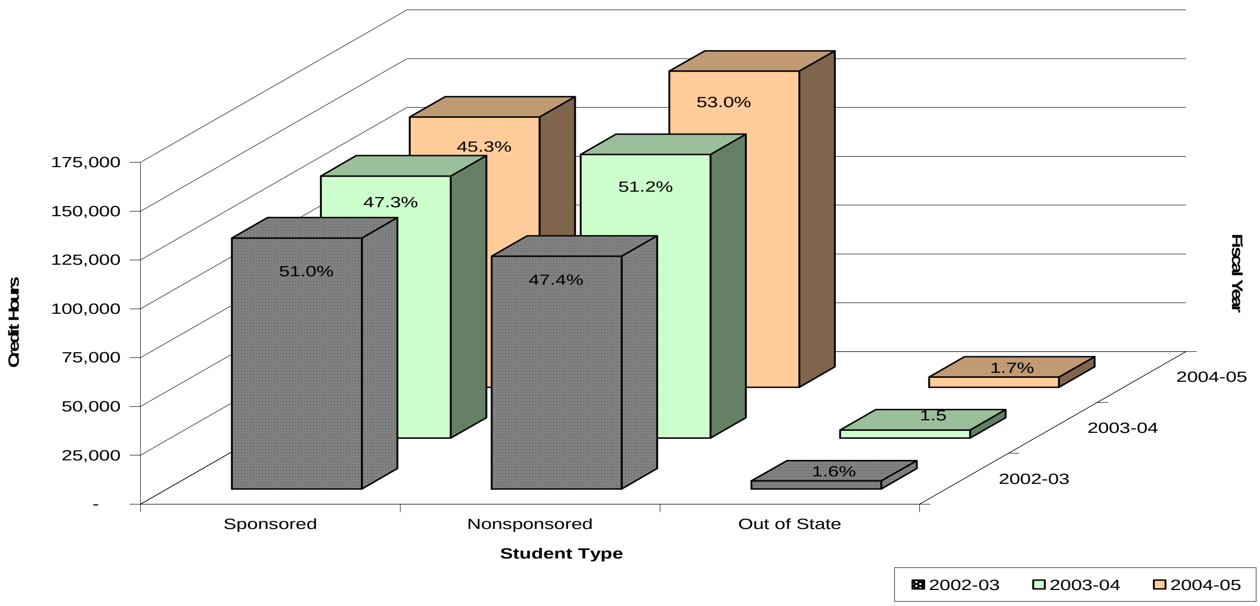

Total credit hour enrollment increased once again in 2005, but at a rate of increase lower than that which occurred in 2004. Total credit hour production of 305,354 was a 21,752 credit hours or a 7.7% growth from 2004 credit hours of 283,602. In 2004 the growth was 31,825 credit hours or 12.6% higher than 2003 credit hours of 251,777. While it appears that the enrollments reported in 2005 for the original 4 campus locations (Harrisburg, Lancaster, Lebanon and Gettysburg) were down from 2004, this situation is the result of HACC's creation of the Virtual campus. Beginning in 2005, all credit hours generated by student's taking on-line and video courses are consolidated and reported as Virtual campus enrollments. Prior years had these credit hours divided among the 4 campuses based on a student's selected home campus. At this time, most students taking virtual courses also attend traditional courses taught in the classroom.

Another trend that has continued in 2005 is the growing percentage of credit hours being taken by nonsponsored students. Each nonsponsored student pays two parts tuition or $151 per credit hour in 2005, where a sponsored student pays one part tuition, or $75.50 per credit hour and receives local school district support for the other $75.50 per credit hour. Fiscal 2004 was the first year we saw a higher percentage of nonsponsored credit hours. In 2005, the 161,817 nonsponsored credit hours represent 53.0% of the total. This is up from 145,222 nonsponsored credit hours or 51.2% of total in 2004. Prior to that in 2003, 119,195 nonsponsored credit hours represented only 47.4% of the total.

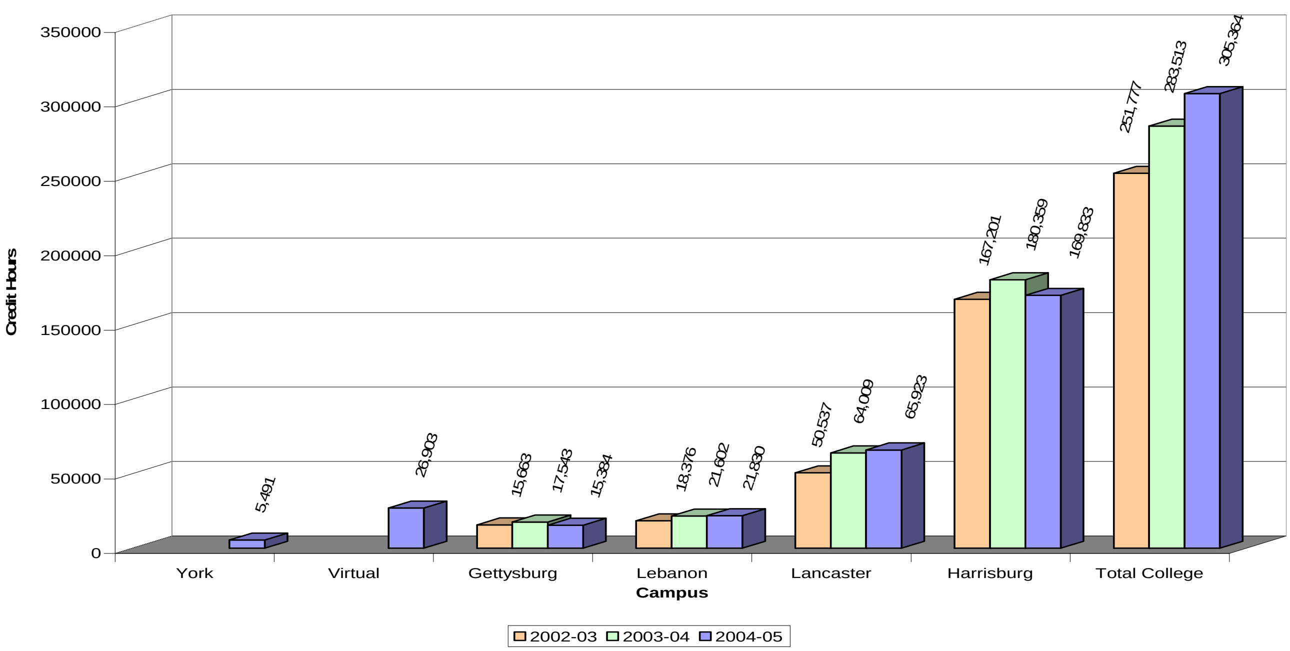
This shows the continued growth at the regional campuses which was assisted by opening of the second classroom building on the Lancaster Campus, HACC's development of an expanded program in York County, and the growth in on-line class availability.

Another factor influencing enrollment growth is the weakened economy that leads many adults to enroll in college to improve their current skills, or prepare for work in a new field. The following charts show these enrollment changes for the fiscal years 2003, 2004, and 2005.

**Credit Hour Production by Student Type**




**Credit Hour Enrollment by Campus 2003, 2004, 2005**



**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. It is a point in time financial statement, the purpose of which is to give a snapshot of the College's fiscal condition. It presents the end-of-year data for Current and Noncurrent Assets, Current and Noncurrent Liabilities, and Net Assets (Assets minus Liabilities). Over time, increases or decreases in net assets may serve as a useful indicator of the College's financial position. As the following chart shows, the College is in a good financial position with net assets increasing the past two years.

**Statement of Net Assets**
**(In millions)**

| | 2005 | 2004 | Increase (Decrease) 2005 - 2004 | 2003 | Increase (Decrease) 2004 - 2003 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets | $47.8 | $30.9 | $16.9 | $25.3 | $5.6 |
| Noncurrent Assets | 75.6 | 61.1 | 14.5 | 60.8 | 0.3 |
| **Total Assets** | 123.4 | 92.0 | 31.4 | 86.1 | 5.9 |
| **Liabilities** | | | | | |
| Current Liabilities | 19.5 | 12.1 | 7.4 | 12.0 | 0.1 |
| Noncurrent Liabilities | 33.4 | 15.7 | 17.7 | 18.6 | (2.9) |
| **Total Liabilities** | 52.9 | 27.8 | 25.1 | 30.6 | (2.8) |
| **Net Assets** | | | | | |
| Invested in Capital Assets, net of debt | 49.4 | 46.2 | 3.2 | 43.1 | 3.1 |
| Unrestricted | 21.1 | 18.0 | 3.1 | 12.4 | 5.6 |
| **Total Net Assets** | $70.5 | $64.2 | $6.3 | $55.5 | $8.7 |

In 2005 current assets increased $16.9 million. The increase was largely driven by three major factors. The first, a cash and cash equivalents increase ($3.8 million) largely resulting from a 7.7% enrollment growth and 3.4% tuition increase in 2005. The second factor is $7.2 million of 2004 bond proceeds remain in short term investments. These funds will be used in 2006 to fund the balance of costs associated with unfinished 2004 bond projects. The unfinished 2004 bond projects include two new buildings on the Harrisburg Campus, renovations on the Gettysburg Campus, and various Phase II energy savings projects. The final item is a $1.3 million balance from the 2004 state receivable. In Fiscal 2005, we received our first payment on this receivable. Since June 30, 2005, another $405,000 payment has been received, but the College has not yet received a definitive notice from the Commonwealth on payment of the remaining balance of this receivable.

Noncurrent assets increased $14.5 million for capital additions in 2005. Of the $14.5 million capital additions, $14.0 million represent Construction in Progress, primarily related to expenditures for the construction of two new buildings on the Harrisburg Campus not completed as of June 30, 2005. These expenditures have been reimbursed from funds provided through the $26.5 million bond issuance that closed in July 2005.

Net assets increased to $70.5 million as of June 30, 2005. The largest portion of these net assets reflects the College's investment in capital assets, less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty and staff, so these assets are not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

**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, and capital additions and deletions.

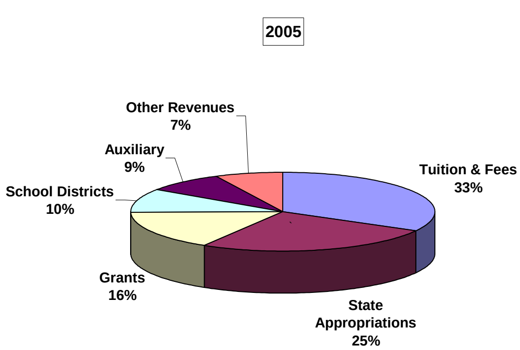
Operating revenues are those received by the College for directly providing goods and services. Nonoperating revenues are those that exclude a direct exchange of goods and services. State and School District appropriations are classified as nonoperating revenues since these governmental agencies do not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

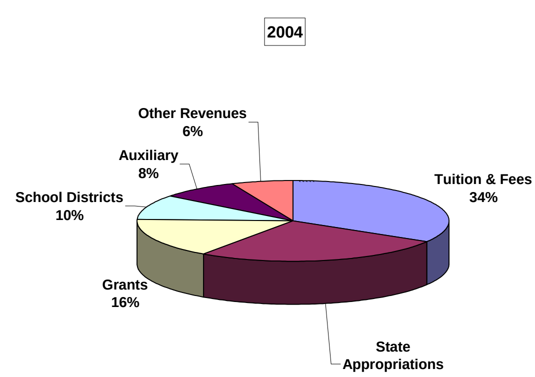
The following chart is a summarized version of the College's revenues, expenses and changes in net assets for years ended June 30, 2005, 2004 and 2003 and graphical representations of revenues and expenses by category.

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

| | 2005 | 2004 | Increase (Decrease) 2005 - 2004 | 2003 | Increase (Decrease) 2004 - 2003 |
|---|---|---|---|---|---|
| Operating Revenues | $68.9 | $61.6 | $7.3 | $54.4 | $7.2 |
| Operating Expenses | 108.2 | 93.6 | 14.6 | 83.8 | 9.8 |
| Operating Income (Loss) | (39.3) | (32.0) | (7.3) | (29.4) | (2.6) |
| Nonoperating Revenues (net) | 39.0 | 35.7 | 3.3 | 31.2 | 4.5 |
| Net Income (Loss) Before Capital Contributions | (0.3) | 3.7 | (4.0) | 1.8 | 1.9 |
| Capital Contributions | 6.5 | 5.0 | 1.5 | 5.8 | (0.8) |
| Increase (Decrease) in Net Assets | $6.2 | $8.7 | ($2.5) | $7.6 | $1.1 |

**Total Operating and Nonoperating Revenue**

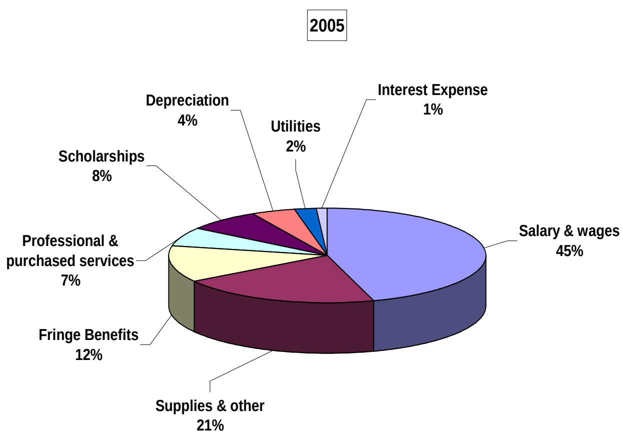


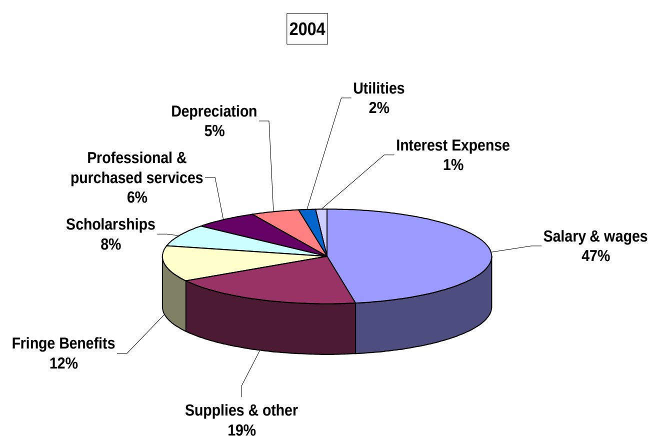



Total operating revenues for 2005 were $68.9 million, an increase of $7.3 million from the prior year. Total operating revenues for 2004 were $61.6 million, an increase of $7.2 million from 2003. The most significant sources of operating revenue at HACC are tuition and fees, federal and state grants which include financial aid, and auxiliary services.

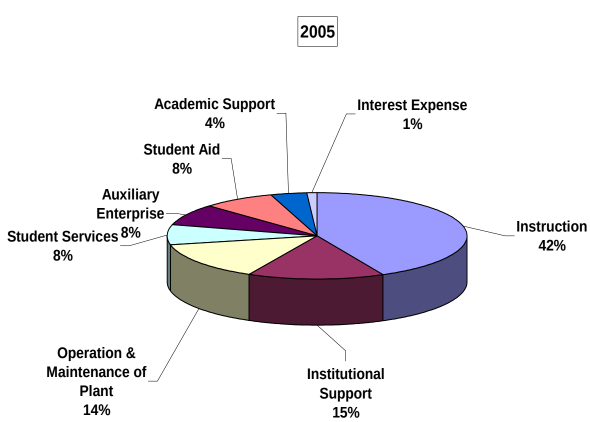
In 2005 the $3.8 million increase in student tuition and fees can be attributed to a 7.7% growth (21,752 credit hours) in enrollments, and a 3.4% tuition increase to $75.50 per credit hour in 2005 from $73 in 2004. A second circumstance is the continuing growth in the share of total credit hours taken by nonsponsored students. In 2005, nonsponsored students represented 53.0% of total credit hours, up from 51.2% in 2004. Prior to 2004, sponsored student enrollments had always exceeded those of nonsponsored students. The financial statement impact of nonsponsored students on tuition and fees is the result of a nonsponsored student paying $151 per credit hour in tuition, while a sponsored student pays only $75.50 in tuition. The other $75.50 for sponsored students is funded by local school districts, and as such are reported as non-operating revenues. Fiscal 2005 had a $1.2 million increase in financial aid grants for students. Finally, bookstore sales of textbooks and general supplies exceeded 2004 by $1.3 million. This increase in revenue stems from enrollment growth, increased costs of textbooks, and the College's drive to bring all bookstore operations in house.

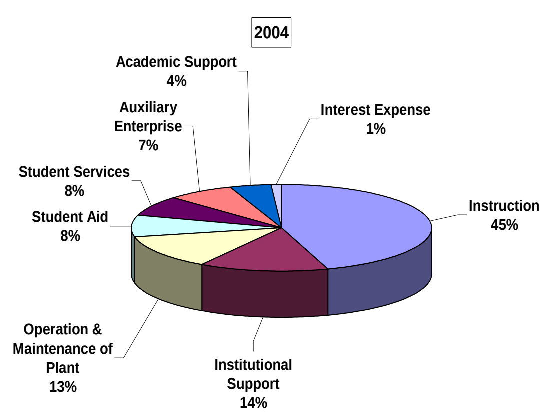
## Total Operating Expenditures by Natural Source




## Total Operating Expenditures by Function



Operating expenses in fiscal 2005 totaled $108.2 million, an increase of $14.6 million from the prior year. Operating expenses in fiscal 2004 was $93.6 million, an increase of $9.8 million from the prior year. As would be expected, most of this increase is in salary and benefits. Salaries and wages were up $5.0 million from the prior year. The driving increase was a 3.8% salary increase in 2005, the addition of new full-time and part-time faculty, administrative, and classified staff positions, and growth of part-time adjunct faculty and faculty overloads to accommodate the additional demand. The fringe benefit category saw an 18.3% ($2.1 million) increase from 2004. Once again in 2005 HACC experienced a significant increase in medical insurance costs. The College continues to search for ways to reduce these premium costs, and have instituted the first employee co-payment of premium in 2006. Other notable increases in fringe benefits were FICA and retirement which are salary driven. Supplies and Other Expenses include the addition of a facility lease for the second classroom building in Lancaster with lease payments beginning in December 2004. This additional space was needed to accommodate both enrollment growth and expansion of program offerings including allied health programs in Lancaster.

Total nonoperating revenues for fiscal 2005 were $39.0 million, an increase of $3.3 million from the prior year. Nonoperating revenues increased $4.5 million in 2004. Included here are state and local appropriations, both of which increased based on continuing enrollment growth. Our local school district sponsors supported an additional 4,217 credit hours and the 3.4% tuition increase in 2005.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year even though the $6.2 million increase to net assets in 2005 is lower that the $8.7 million increase in 2004. This shows the required level of staffing and facility costs required to accommodate the extraordinary growth the College has experienced over the last few years.

**Statement of Cash Flows:**

The final statement presented by HACC is the Statement of Cash Flows which presents information about the cash activity of the College. The statement shows the major sources and uses of cash during the year. The Statement of Cash Flows can help readers to assess the College's ability to meet its obligations as they come due, and need for external financing. HACC's cash flows remain strong, and had increased by $6.7 million as of June 30, 2005. The following is a summary of the statement of cash flows for the years ended June 30, 2005, 2004 and 2003.

**Cash Flows**
**(In millions)**

| | 2005 | 2004 | Increase (Decrease) 2005 - 2004 | 2003 | Increase (Decrease) 2004 - 2003 |
|---|---|---|---|---|---|
| Cash Provided (Used) By: | | | | | |
| Operating Activities | ($32.7) | ($27.8) | ($4.9) | ($25.1) | ($2.7) |
| Noncapital Financing Activities | 40.2 | 34.4 | 5.8 | 33.2 | 1.2 |
| Capital Financing Activities | 8.3 | (3.4) | 11.7 | (3.9) | 0.5 |
| Investing Activities | (9.2) | 1.2 | (10.4) | (1.8) | 3.0 |
| Net Increase in Cash and Cash Equivalents | 6.6 | 4.4 | 2.2 | 2.4 | 2.0 |
| Cash and Cash Equivalents - Beginning of Year | 17.6 | 13.1 | 4.5 | 11.7 | 1.4 |
| Cash and Cash Equivalents - End of Year | $24.2 | $17.5 | $6.7 | $14.1 | $3.4 |

## Capital Asset and Debt Administration:

### Capital Plan

During fiscal year 2005 the College completed a 10 year facility master plan. In addition to the management of existing facilities, this strategic plan will assist the college to make considered decisions on how to best support the continued growth of HACC. This permits the College to better allocate capital resources, and determine when capital financing will be required.

### Capital Assets and Debt

During the year ended June 30, 2005, the College had total capital additions of approximately $19 million. This activity includes acquisition of instructional and other equipment as well as various other improvements on the College's campuses. The largest portion of these additions is $14 million included in construction in progress. This expense is associated with the construction of, and equipping, the Select Medical Health Education Pavilion and Grace Milliman Pollock Childcare/Early Childhood Education Center on the Harrisburg Campus. It also includes leasehold improvements and equipping, of the property leased to house the York Center. All of these buildings were completed and opened for the Fall 2005 semester. Financing for these projects was provided by two bond issues (discussed below).

The College has several outstanding debt instruments which were issued to finance construction and other improvements. These debts, including payment schedules, are more fully described in Notes 7 and 8 of the financial statements.

In July 2004, the College issued $26.5 million in bonds through the State Public School Board Authority. In addition to refinancing 1995C bonds ($3.2 million), it funded five capital projects. These were the construction of the Select Medical Health Education Pavilion and Grace Milliman Pollock Childcare/Early Childhood Education Center on the Harrisburg Campus ($12.0 million); Lancaster Phase II furniture, fixtures and equipment ($3.5 million); expansion and other renovations at the Gettysburg campus ($2.3 million); Phase II energy savings projects ($3.9 million); and technology infrastructure improvements ($1.6 million).

In response to the strong demand for our services in the York area, the College identified and renovated a permanent site in York. This new location allows for expansion of the evening programs run at York area high schools to offer day programs, as well as provide students with a full range of services. Several significant contributions were received to assist with funding the capital costs associated with creating this permanent site. The College continues to work to obtain additional support. In support of the permanent York Center initiative, in July 2005 the College issued $5.4 million in bonds through the State Public School Board Authority. The York Center opened in August 2005. Construction in process at June 30, 2005 includes $2.6 million of expenditures for the York Center.

Fiscal 2005 was the final year the Commonwealth will reimburse community college debt service and leases via the state operating appropriation. Beginning in 2006 a separate capital appropriation has been created for these capital projects. While HACC will eventually lose funding for the college's operating leases, such as computers and copiers, we anticipate receiving additional state support for HACC's recent debt service and campus leases. Although endorsed by the State, there was no guarantee of state support for HACC's 2004 and 2005 bond issues, Penn Center, Lancaster Phase II, and York facility leases. This situation resulted from State funding issues, aggravated by significant enrollment growth in community colleges across the Commonwealth in the past few years. This required HACC to cover the State's unfunded share from our current revenues and existing reserves. This situation will be resolved in 2006 with the implementation of the revised Community College funding formula. This will allow the redirection of operating revenues previously used to fund these capital projects to cover other needs of the College.

**<u>Economic Factors That Will Affect the Future:</u>**

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 increased retention efforts have resulted in continued enrollment growth. HACC continues to grow enrollments with expansion of on-line course offerings and the establishment of a permanent York Center.

As noted above, 2005 was the last year the Commonwealth will fund community colleges based upon actual enrollments, which are not available until after the close of that fiscal year. This often lead to the state's recovery of funds received during the year, but not earned as of year end when actual FTE production was known. Also, due to funding issues and significant enrollment growth at community colleges across the commonwealth, there was no guarantee the state would be able to fund all of the FTE's generated. Beginning in 2006, the new community college funding formula will assist community colleges to better budget state support, allowing for a more efficient allocation of resources. An important feature in this new methodology is the guarantee of a funding floor based on the previous year's appropriation. This will provide financial protection to the College when an unanticipated decline in enrollments is encountered by giving us the time to refocus priorities and reduce expenditures as required.

Overall, the College's current financial position is very strong as shown in these 2005 financial statements. The College continues to grow and expand while efficiently managing available resources. The College also 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.

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## *HARRISBURG AREA COMMUNITY COLLEGE*
## *STATEMENTS OF NET ASSETS*
## *June 30, 2005 and 2004*

| | PRIMARY INSTITUTION | | COMPONENT UNIT FOUNDATION | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **ASSETS** | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ 24,154,555 | $ 17,575,095 | $ 1,928,622 | $ 1,521,532 |
| Short-term investments | 12,528,955 | 2,476,766 | 1,278,170 | 598,255 |
| Accounts receivable, net | 8,286,049 | 9,098,709 | 3,935,154 | 2,909,934 |
| Loans receivable | 40,320 | 23,386 | 0 | 0 |
| Other assets | 809,769 | 342,145 | 0 | 1,000 |
| Inventories | 1,409,311 | 1,108,692 | 0 | 0 |
| Due from HACC Foundation | 569,641 | 295,452 | 0 | 0 |
| Total Current Assets | 47,798,600 | 30,920,245 | 7,141,946 | 5,030,721 |
| Non-current Assets | | | | |
| Long-term investments | 0 | 0 | 24,177,016 | 23,923,244 |
| Loans receivable | 240,882 | 226,371 | 0 | 0 |
| Capital assets net of accumulated depreciation | 75,417,407 | 60,887,135 | 0 | 0 |
| Total Non-current Assets | 75,658,289 | 61,113,506 | 24,177,016 | 23,923,244 |
| Total Assets | $ 123,456,889 | $ 92,033,751 | $ 31,318,962 | $ 28,953,965 |
| **LIABILITIES** | | | | |
| Current Liabilities | | | | |
| Due to HACC | $ 0 | $ 0 | $ 569,641 | $ 295,452 |
| Accounts payable and accrued expenses | 12,790,222 | 6,833,587 | 0 | 0 |
| Deposits held in custody for others | 494,886 | 332,561 | 0 | 0 |
| Deferred revenue | 1,783,323 | 1,509,728 | 11,100 | 14,126 |
| Current portion of long term liabilities | 4,471,314 | 3,429,903 | 100,000 | 0 |
| Total Current Liabilities | 19,539,745 | 12,105,779 | 680,741 | 309,578 |
| Non-Current Liabilities | | | | |
| Long term liabilities | 33,411,443 | 15,656,919 | 900,000 | 0 |
| Total Non-Current Liabilities | 33,411,443 | 15,656,919 | 900,000 | 0 |
| Total Liabilities | 52,951,188 | 27,762,698 | 1,580,741 | 309,578 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 49,374,677 | 46,218,605 | 0 | 0 |
| Restricted - nonexpendable | 0 | 0 | 12,383,890 | 11,402,465 |
| Restricted - expendable | 0 | 0 | 10,693,104 | 9,686,627 |
| Unrestricted | 21,131,024 | 18,052,448 | 6,661,227 | 7,555,295 |
| Total Net Assets | 70,505,701 | 64,271,053 | 29,738,221 | 28,644,387 |
| Total Liabilities and Net Assets | $ 123,456,889 | $ 92,033,751 | $ 31,318,962 | $ 28,953,965 |

*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, 2005 and 2004***

| | PRIMARY INSTITUTION | | COMPONENT UNIT FOUNDATION | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **REVENUES** | | | | |
| Operating Revenues | | | | |
| Student tuition and fees | $ 41,812,677 | $ 37,983,583 | $ 0 | $ 0 |
| Scholarship allowance and discounts | ( 5,674,686) | ( 4,966,037) | 0 | 0 |
| Federal grants | 11,482,543 | 10,330,760 | 0 | 0 |
| State and local grants | 5,719,903 | 4,906,177 | 0 | 0 |
| Nongovernmental grants | 532,888 | 319,455 | 0 | 0 |
| Sales and services of auxiliary enterprises | 9,291,579 | 8,002,809 | 0 | 0 |
| Other operating revenues | 5,728,327 | 5,040,740 | 0 | 0 |
| Contributions | 0 | 0 | 3,586,023 | 4,144,969 |
| Investment income, net of investment expense of $ 53,575 - 2005 and $ 49,660 - 2004 | 0 | 0 | 522,372 | 423,920 |
| Realized and unrealized gains (losses) on investments | 0 | 0 | 1,650,530 | 3,017,974 |
| Total Operating Revenues | 68,893,231 | 61,617,487 | 5,758,925 | 7,586,863 |
| **EXPENSES** | | | | |
| Operating Expenses | | | | |
| Salaries and wages | 49,631,793 | 44,657,874 | 153,190 | 140,690 |
| Fringe benefits and payroll taxes | 13,497,234 | 11,410,727 | 40,352 | 33,526 |
| Supplies and other expense | 22,499,073 | 18,171,958 | 197,678 | 103,650 |
| Professional and purchased services | 7,128,574 | 6,065,510 | 57,331 | 60,458 |
| Utilities | 2,398,528 | 1,737,975 | 0 | 0 |
| Depreciation and amortization | 4,693,905 | 4,307,498 | 0 | 0 |
| Scholarships | 8,343,410 | 7,264,285 | 654,757 | 415,607 |
| Contributions and grants | 0 | 0 | 3,561,783 | 1,247,439 |
| Total Operating Expenses | 108,192,517 | 93,615,827 | 4,665,091 | 2,001,370 |
| Operating Income (Loss) | ( 39,299,286) | ( 31,998,340) | 1,093,834 | 5,585,493 |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | |
| State appropriations | 27,746,179 | 25,745,320 | 0 | 0 |
| Local appropriations | 10,541,357 | 9,863,235 | 0 | 0 |
| Gifts | 1,156,458 | 907,443 | 0 | 0 |
| Investment income, net of investment expense of $ 12,169 - 2005, $ 11,756 - 2004 | 875,523 | 218,996 | 0 | 0 |
| Interest on capital asset related debt | ( 1,321,130) | ( 1,018,045) | 0 | 0 |
| Total Non-Operating Revenues, net | 38,998,387 | 35,716,949 | 0 | 0 |
| Net Income (Loss) Before Capital Contributions | ( 300,899) | 3,718,609 | 1,093,834 | 5,585,493 |
| **CAPITAL CONTRIBUTIONS** | | | | |
| Capital appropriations - local sources | 200,000 | 200,000 | 0 | 0 |
| Capital appropriations - state sources | 3,763,105 | 3,741,679 | 0 | 0 |
| Capital grants and gifts | 2,572,442 | 1,094,731 | 0 | 0 |
| Total Capital Contributions | 6,535,547 | 5,036,410 | 0 | 0 |
| Increase in Net Assets | 6,234,648 | 8,755,019 | 1,093,834 | 5,585,493 |
| Net Assets - Beginning of Year | 64,271,053 | 55,516,034 | 28,644,387 | 23,058,894 |
| Net Assets - End of Year | $ 70,505,701 | $ 64,271,053 | $ 29,738,221 | $ 28,644,387 |

*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, 2005 and 2004***

| | PRIMARY INSTITUTION | | COMPONENT UNIT FOUNDATION | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Payments received for tuition and fees | $ 36,166,144 | $ 33,845,965 | $ 0 | $ 0 |
| Payments received from grants and contracts | 17,622,930 | 15,679,228 | 0 | 0 |
| Payments received from auxiliary enterprise charges | 9,256,209 | 8,154,863 | 0 | 0 |
| Payments received from other revenues | 5,691,388 | 4,982,641 | 0 | 0 |
| Payments received from donors (temporary and unrestricted) | 0 | 0 | 1,650,140 | 521,868 |
| Payments received from investment activities | 0 | 0 | 235,230 | 194,992 |
| Payments to and on behalf of employees | ( 62,408,880) | ( 55,524,044) | ( 193,542) | ( 174,216) |
| Payments to suppliers for goods and services | ( 30,717,246) | ( 27,535,066) | ( 242,787) | ( 170,209) |
| Payments for contributions and grants | 0 | 0 | ( 3,268,207) | ( 1,029,265) |
| Payments for financial aid and scholarships | ( 8,340,185) | ( 7,409,790) | ( 683,288) | ( 374,607) |
| Net cash used in operating activities | ( 32,729,640) | ( 27,806,203) | ( 2,502,454) | ( 1,031,437) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| State appropriations | 28,236,396 | 23,613,163 | 0 | 0 |
| Local appropriations | 10,866,977 | 9,932,013 | 0 | 0 |
| Gifts received | 1,131,809 | 887,278 | 0 | 0 |
| Collection of contributions restricted for long-term purposes | 0 | 0 | 905,368 | 1,617,236 |
| Collection of investment income restricted for long-term purposes | 0 | 0 | 287,333 | 216,107 |
| Proceeds from borrowing | 0 | 0 | 1,000,000 | 0 |
| Net cash provided by noncapital financing activities | 40,235,182 | 34,432,454 | 2,192,701 | 1,833,343 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | | | |
| Capital debt financing | 26,217,250 | 0 | 0 | 0 |
| State and local appropriations | 3,963,105 | 3,941,257 | 0 | 0 |
| Capital grants and gifts received | 2,435,031 | 1,002,483 | 0 | 0 |
| Purchases of capital assets | ( 15,353,731) | ( 4,524,819) | 0 | 0 |
| Principal paid on debt and capital leases | ( 7,699,255) | ( 2,908,649) | 0 | 0 |
| Interest paid on debt and capital leases | ( 1,252,539) | ( 925,540) | 0 | 0 |
| Net cash used by capital financing activities | 8,309,861 | ( 3,415,268) | 0 | 0 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | ( 12,054,055) | ( 2,000,000) | ( 27,147,640) | ( 19,075,417) |
| Proceeds from sale/maturities of investments | 2,000,000 | 3,000,000 | 27,864,483 | 19,635,716 |
| Investment income | 818,112 | 224,689 | 0 | 0 |
| Net cash provided by investing activities | ( 9,235,943) | 1,224,689 | 716,843 | 560,299 |
| Increase in cash and cash equivalents | 6,579,460 | 4,435,672 | 407,090 | 1,362,205 |
| Cash and Cash equivalents - Beginning of Year | 17,575,095 | 13,139,423 | 1,521,532 | 159,327 |
| Cash and Cash equivalents - End of Year | $ 24,154,555 | $ 17,575,095 | $ 1,928,622 | $ 1,521,532 |

*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, 2005 and 2004***

| | PRIMARY INSTITUTION | | COMPONENT UNIT FOUNDATION | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | | | | |
| Operating income (loss) | ($ 39,299,286) | ($ 31,998,340) | $ 1,093,834 | $ 5,585,493 |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | | | |
| Depreciation and amortization expense | 4,693,905 | 4,307,498 | 0 | 0 |
| Loss on disposal of capital assets | 7,166 | 4,631 | 0 | 0 |
| Realized and unrealized (gain) loss on investments | 0 | 0 | ( 1,650,530) | ( 3,017,974) |
| Collection of contributions restricted for long-term purposes | 0 | 0 | ( 905,368) | ( 1,617,236) |
| Collection of investment income restricted for long-term purposes | | | ( 287,333) | ( 216,107) |
| (Increase) Decrease in: | | | | |
| Accounts receivable | 375,311 | 461,773 | ( 1,025,220) | ( 2,012,742) |
| Inventory | ( 300,618) | ( 173,946) | 0 | 0 |
| Other assets | ( 228,437) | 2,009 | 1,000 | ( 1,000) |
| Increase (Decrease) in: | | | | |
| Deferred revenue | 0 | 0 | ( 3,025) | ( 2,000) |
| Accounts payable and accrued expense | 1,859,996 | ( 447,117) | 274,188 | 250,129 |
| Deposits | 162,323 | 37,289 | 0 | 0 |
| Net cash used in operating activities | ($ 32,729,640) | ($ 27,806,203) | ($ 2,502,454) | ($ 1,031,437) |
| **NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS** | | | | |
| Capital gifts of equipment and buildings | $ 137,410 | $ 96,900 | $ 0 | $ 0 |
| Capital assets acquired through capital leases | $ 0 | $ 31,548 | $ 0 | $ 0 |
| Realized and unrealized gains (losses) on investments | ($ 1,866) | ($ 9,209) | $ 2,118,201 | $ 3,017,974 |

*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. Substantially all of HACC Foundation's expenses for scholarship, contributions, and grants flow through as "state and local grants" income on the College's financial statements. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as a 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*** **-** The College has 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. 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.

## Note 1. Summary Of Significant Accounting Policies (Continued)

***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 pooled investments in the PSDLAF and Commonfund. For purposes of the statement of net assets, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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

***Total Return Policy - HACC Foundation* -** The Foundation has 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, 2005 and 2004. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of fund principal 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 |

***Long-Term Obligations***

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, bond loss on refinancing and issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Note 1. Summary Of Significant Accounting Policies (Continued)**

***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.

***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.

***Reclassification***

Certain amounts in the 2004 financial statements have been reclassified to conform with the 2005 financial statement presentation.

**Note 2. Cash and Cash Equivalents**

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a policy for custodial credit risk. As of June 30, 2005, $ 19,384,946 of the College's bank balance of $ 19,759,869 was exposed to custodial credit risk as follows:

| | |
|---|---|
| Uninsured and uncollateralized | $ 0 |
| Collateralized with securities held by the pledging financial institution | 0 |
| Uninsured and collateral held by the pledging bank's trust department but not in the College's name | 19,384,746 |
| | $ 19,384,746 |

Included in investments on the statement of net assets are CD's invested in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 4,870,000, all with maturities of less than one year. These are considered deposits for purposes of this disclosure.

**Note 3. Investments**

***Credit Risk***

Included in cash and cash equivalents on the statement of net assets are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 4,075,857 and the Commonfund – Short-term fund of $ 6,879,817. These funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of $ 1 per share. At June 30, 2005, the College's investment in PSDLAF was rated AAAm and the College's investment in Commonfund – Short-term was rated AAA by Standard & Poor's Investors Service.

As of June 30, 2005, the College's investment of $ 474,900 in the Commonfund – Intermediate Term Fund was rated AA+ by Standard & Poor's Investors Service. The College's investment of $ 7,184,055 in the XL Asset fund was rated AAA by Standard & Poor's Investors Service.

***Interest Rate Risk***

Investments in PSDLAF are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

As of June 30, 2005, the College had the following investments that were subject to interest rate risk. The College does not have a policy for interest rate risk.

| Investment | Maturity | Fair Value |
|---|---|---|
| XL Asset Fund (J P Morgan) | 6/15/2006 | $ 7,181,017 |
| Commonfund - Short-Term | Effective duration 2.58 years | 6,879,817 |
| Commonfund - Intermediate Term Fund | Effective duration 1.2 years | 474,900 |

Investments of the HACC Foundation as of June 30, 2005 and 2004 are comprised of the following:

| | Cost | Fair Value | Unrealized Gains (Losses) |
|---|---|---|---|
| | | 2005 | |
| Money market funds | $ 1,278,170 | $ 1,278,170 | $ 0 |
| Equities | 15,440,207 | 18,431,139 | 2,990,932 |
| Government obligations | 3,746,740 | 3,794,961 | 48,221 |
| Corporate bonds | 1,944,111 | 1,950,916 | 6,805 |
| | $ 22,409,228 | $ 25,455,186 | $ 3,045,958 |

| | Cost | Fair 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 |

## Note 3. Investments (Continued)

***Investments In An Unrealized Loss Position - HACC Foundation***

The following table shows gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2005.

| | 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 | $ 1,023,419 | ($ 4,324) | $ 374,631 | ($ 6,239) | $ 1,398,050 | ($ 10,563) |
| Corporate bonds | 230,064 | ( 1,690) | 158,032 | ( 6,643) | 388,096 | ( 8,333) |
| Equities | 1,581,248 | ( 112,048) | 2,385,789 | ( 471,283) | 3,967,037 | ( 583,331) |
| Total temporarily impaired securities | $ 2,834,731 | ($ 118,062) | $ 2,918,452 | ($ 484,165) | $ 5,753,183 | ($ 602,227) |

As of June 30, 2005 there were a total of 114 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, ability to hold to maturity, security price volatility, and specific security analysis.

## Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

| | College | | HACC Foundation | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Student Tuition and fees | $ 3,765,592 | $ 4,411,754 | $ 0 | $ 0 |
| Allowance for doubtful accounts | ( 400,000) | ( 300,000) | 0 | 0 |
| Grants and contracts receivable | 1,651,374 | 2,113,412 | 0 | 0 |
| State appropriations receivable | 1,401,952 | 1,747,517 | 0 | 0 |
| Bookstore receivables | 712,402 | 717,606 | 0 | 0 |
| Other receivables | 1,154,729 | 408,420 | 62,724 | 62,915 |
| Pledges receivables (net) | 0 | 0 | 3,744,239 | 2,690,420 |
| Charitable remainder annuity trust held by outside party | 0 | 0 | 128,191 | 156,599 |
| Total | $ 8,286,049 | $ 9,098,709 | $ 3,935,154 | $ 2,909,934 |

Bookstore receivables include $ 559,230 and $ 603,354 in vendor credit memos at June 30, 2005 and 2004, 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 4% for June 30, 2005 and 6% for June 30, 2004. The unamortized discount was $ 390,127 and $ 642,108 at June 30, 2005 and 2004.

## Note 5. Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2005 and 2004:

**2005**

| | Beginning Balance | Additions | Retirements and Adjustments | Ending Balance |
|---|---|---|---|---|
| **Cost:** | | | | |
| Land | $ 1,639,470 | $ 0 | $ 0 | $ 1,639,470 |
| Building | 51,483,793 | 50,604 | 21,348 | 51,555,745 |
| Improvements - land | 937,728 | 228,196 | 1,900 | 1,167,824 |
| Improvements - building | 14,218,134 | 793,536 | 3,533 | 15,015,203 |
| Improvements - leasehold | 3,028,275 | 270,103 | 0 | 3,298,378 |
| Instructional equipment | 17,497,239 | 2,295,676 | 549,242 | 20,342,157 |
| Non-instructional equipment | 6,632,509 | 1,568,395 | ( 134,972) | 8,065,932 |
| Construction in progress | 1,758,178 | 14,027,896 | ( 669,811) | 15,116,263 |
| Total cost | 97,195,326 | 19,234,406 | ( 228,760) | 116,200,972 |
| **Less accumulated depreciation:** | | | | |
| Building | ( 17,435,862) | ( 1,288,282) | 0 | ( 18,724,144) |
| Improvements - land | ( 153,017) | ( 53,552) | 0 | ( 206,569) |
| Improvements - building | ( 4,617,273) | ( 779,325) | 0 | ( 5,396,598) |
| Improvements - leasehold | ( 355,837) | ( 155,216) | 0 | ( 511,053) |
| Instructional equipment | ( 7,847,624) | ( 761,811) | 0 | ( 8,609,435) |
| Non-instructional equipment | ( 5,898,578) | ( 1,618,772) | 181,584 | ( 7,335,766) |
| Total accumulated depreciation | ( 36,308,191) | ( 4,656,958) | 181,584 | ( 40,783,565) |
| **Capital assets, net** | $ 60,887,135 | $ 14,577,448 | ($ 47,176) | $ 75,417,407 |

**2004**

| | Beginning Balance | Additions | Retirements and Adjustments | 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 6. Other Assets

Other assets of the College at June 30 consist of:

| | 2005 | 2004 |
|---|---|---|
| Prepaid expenses | $ 540,385 | $ 277,647 |
| Bond issue costs | 478,336 | 236,572 |
| Accumulated amortization - bond issue costs | ( 208,952) | ( 172,074) |
| | $ 809,769 | $ 342,145 |

## Note 7. Changes in Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2005 and 2004:

**2005**

| | Beginning Balance | Additions | Retirements | Ending Balance | Current Portion | Long-term Portion |
|---|---|---|---|---|---|---|
| **Leases and bonds/notes payable:** | | | | | | |
| Capital lease obligation | $ 177,529 | $ 0 | ($ 46,664) | $ 130,865 | $ 48,679 | $ 82,186 |
| Bonds and notes payable: | | | | | | |
| Series of 1995 C and D | 12,880,000 | 0 | ( 4,635,000) | 8,245,000 | 1,675,000 | 6,570,000 |
| Series of 1998 N | 375,000 | 0 | ( 375,000) | 0 | 0 | 0 |
| Series of 2004 | 0 | 26,530,000 | ( 1,970,000) | 24,560,000 | 1,875,000 | 22,685,000 |
| Note payable - 2001 | 1,300,499 | 0 | ( 672,590) | 627,909 | 627,909 | 0 |
| Bond premium | 0 | 53,712 | ( 2,611) | 51,101 | 2,611 | 48,490 |
| Loss on refinancing | 0 | ( 124,698) | 5,992 | ( 118,706) | ( 5,992) | ( 112,714) |
| Total leases and bonds/notes payable | 14,733,028 | 26,459,014 | ( 7,695,873) | 33,496,169 | 4,223,207 | 29,272,962 |
| **Other liabilities:** | | | | | | |
| Compensated absences: | | | | | | |
| Vacation leave | 1,874,903 | 177,548 | ( 90,079) | 1,962,372 | 101,207 | 1,861,165 |
| Sick leave | 2,249,166 | 117,428 | ( 90,415) | 2,276,179 | 109,662 | 2,166,517 |
| Early retirement payable | 229,725 | 11,556 | ( 93,244) | 148,037 | 37,238 | 110,799 |
| Total other liabilities | 4,353,794 | 306,532 | ( 273,738) | 4,386,588 | 248,107 | 4,138,481 |
| **Total long-term liabilities** | $ 19,086,822 | $ 26,765,546 | ($ 7,969,611) | $ 37,882,757 | $ 4,471,314 | $ 33,411,443 |

**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 |

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

*Bonds Payable*

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2005 and 2004 consist of the following:

| | 2005 | 2004 |
|---|---|---|
| 1995 C, issued $ 5,810,000 in June 1995; at 4.65% - 5.6%; interest and principal payable semi-annually through April 1, 2011 (Note – Refunded in 2005) | $ 0 | $ 3,040,000 |
| 1995 D, issued $ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011 | 8,245,000 | 9,840,000 |
| 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 | 0 | 375,000 |
| 2004, issued $ 26,530,000 in July 2004; at 2.25% - 5.25% interest and principal payable semi-annually through April 2024 | 24,560,000 | 0 |
| Total bonds payable | $ 32,805,000 | $ 13,255,000 |

As a result of refunding of the 1995C Bonds, the College was able to recognize the following:

| | |
|---|---|
| (1) Cash flow gain | $ 178,832 |
| (2) Economic gain | 150,212 |

(1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
(2) Represents the difference in present values of the old debt and new debt, less bond issue costs.

*Subsequent Event*

Subsequent to year-end, on July 1, 2005, the College issued the 2005 bonds in the amount of $ 5,435,000. This was used to provide funding for capital projects the college is undertaking at the York facility.

*Future Maturities*

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 including the 2005 bonds issued on July 1, 2005 are as follows:

| Year ending | State Share | | College Share | | Total | Total | |
|---|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2006 | $ 1,077,484 | $ 312,703 | $ 2,942,516 | $ 1,177,044 | $ 4,020,000 | $ 1,489,747 | $ 5,509,747 |
| 2007 | 1,130,735 | 257,010 | 3,034,265 | 1,135,023 | 4,165,000 | 1,392,033 | 5,557,033 |
| 2008 | 1,197,157 | 190,627 | 3,137,843 | 1,023,189 | 4,335,000 | 1,213,816 | 5,548,816 |
| 2009 | 827,946 | 135,121 | 2,817,054 | 918,523 | 3,645,000 | 1,053,644 | 4,698,644 |
| 2010 | 727,382 | 90,135 | 2,812,618 | 807,227 | 3,540,000 | 897,362 | 4,437,362 |
| 2010-2014 | 770,278 | 46,501 | 11,279,722 | 2,634,709 | 12,050,000 | 2,681,210 | 14,731,210 |
| 2015-2019 | 0 | 0 | 3,280,000 | 1,261,592 | 3,280,000 | 1,261,592 | 4,541,592 |
| 2020-2024 | 0 | 0 | 3,205,000 | 431,551 | 3,205,000 | 431,551 | 3,636,551 |
| Total | $ 5,730,982 | $ 1,032,097 | $ 32,509,018 | $ 9,388,858 | $ 38,240,000 | $ 10,420,955 | $ 48,660,955 |

## 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 | State Share | | College Share | | Total | Total | |
|---|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2006 | $ 313,955 | $ 10,812 | $ 313,954 | $ 10,811 | $ 627,909 | $ 21,623 | $ 649,532 |

*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:

| | |
|---|---|
| 2006 | $ 44,640 |
| 2007 | 42,709 |
| 2008 | 44,474 |
| 2009 | 33,681 |
| 2010 | 837 |
| Total | $ 166,341 |

The estimated ERSIP liability is discounted at a rate of 5.0% and is $ 148,037 and $ 229,725 at June 30, 2005 and 2004, 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:

| | 2005 | 2004 |
|---|---|---|
| Amount capitalized | $ 242,735 | $ 242,735 |
| Accumulated amortization | ( 97,062) | ( 50,398) |
| Net book value | $ 145,673 | $ 192,337 |

Amortization expense is included with depreciation expense.

## Note 8. Leases (Continued)

The future minimum lease payments under capital leases as of June 30, 2005 are as follows:

| | |
|---|---|
| 2006 | $ 53,530 |
| 2007 | 53,530 |
| 2008 | 28,511 |
| 2009 | 3,699 |
| | 139,270 |
| Amount representing interest | ( 8,405) |
| | $ 130,865 |

***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:

| | |
|---|---|
| 2006 | $ 6,127,161 |
| 2007 | 5,783,542 |
| 2008 | 5,182,942 |
| 2009 | 5,142,642 |
| 2010 | 5,134,842 |
| 2011 – 2015 | 22,998,542 |
| 2016 – 2020 | 18,012,735 |
| 2021 – 2025 | 11,458,054 |
| 2026 | 21,750 |
| Total minimum lease payments | $ 79,862,210 |

The total rent for the years ended June 30, 2005 and 2004 was $ 5,740,601 and $ 4,483,425, 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 30,2005** | |
| 2004 – 2005 | $ 161,712 | $ 161,712 | $ 0 |
| | | **June 30, 2004** | |
| 1993 – 1994 | $ 18,924 | $ 18,924 | $ 0 |
| 2001 – 2002 | 47,914 | 47,914 | 0 |
| | $ 66,838 | $ 66,838 | $ 0 |

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

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, 2005 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

| | 2005 | 2004 |
|---|---|---|
| Beginning Balance | $ 83,421 | $ 79,324 |
| Claims made/Changes in estimates | 410,310 | 337,779 |
| Claims paid | ( 394,985) | ( 333,682) |
| Ending Balance | $ 98,746 | $ 83,421 |

**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, 2005 and 2004 was 2.12 and 1.885 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2005, 2004, and 2003, were $ 52,463, $ 40,190, and $ 11,692, 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 1.15 percent for Class A, 1.43 percent for Class AA, .41 percent for Class A, and .50 percent for Class AA as of June 30, 2005 and 2004, respectively. The College's contributions to SERS for the years ended June 30, 2005, 2004, and 2003, were $ 50,583, $ 14,776, 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, 2005, 2004, and 2003 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:

| | **2005** | **2004** | **2003** |
|---|---|---|---|
| College | $ 3,011,476 | $ 2,732,328 | $ 2,424,997 |
| Employees | 2,957,869 | 2,660,022 | 2,319,185 |

## 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)

Accounts receivable on the Statement of Net Assets and state appropriation revenue on the Statement of Revenues, Expenses, and Changes in Net Assets includes $ 1,332,457 state reimbursement based on the FTE (full-time equivalent) reconciliation that was performed at June 30, 2004. 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. However, $ 415,000 was received during 2004/2005, and approximately $ 415,000 has been received since June 30, 2005. The ultimate outcome of this situation cannot currently be determined and accordingly no allowance has been recorded on these financial statements.

Management does not expect that the resolution of any other outstanding claims and litigation, of which there are several being defended by the College, will have a material adverse effect on the financial position of the College.

*Commitments*

As of June 30, 2005, the College had commitments for the following projects:

| | Total estimated costs | Total costs incurred as of June 30, 2005 |
|---|---|---|
| Health education pavilion | $ 7,985,952 | $ 7,069,811 |
| Childcare and early childhood education center | 2,248,729 | 1,411,241 |
| York | 3,984,800 | 1,842,356 |
| Energy project | 2,648,307 | 1,160,668 |
| | $ 16,867,788 | $ 11,484,076 |

## Note 13. State Appropriations

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

| | 2005 | 2004 |
|---|---|---|
| Included in non-operating revenue: | | |
| Social security reimbursement | $ 1,814,158 | $ 1,616,156 |
| Tuition reimbursement | 25,932,021 | 24,129,164 |
| Sub-total | 27,746,179 | 25,745,320 |
| Included in capital appropriations: | | |
| Debt reimbursement | 1,946,463 | 1,949,541 |
| Lease reimbursement | 1,816,642 | 1,792,138 |
| Sub-total | 3,763,105 | 3,741,679 |
| Total | $ 31,509,284 | $ 29,486,999 |

**Note 14. Net Assets**

*College:*

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

| | 2005 | 2004 |
|---|---|---|
| Capital assets, net | $ 75,417,407 | $ 60,887,135 |
| Bond issue costs, net | 269,384 | 64,498 |
| Bonds payable | ( 32,737,395) | ( 13,255,000) |
| Notes payable | ( 627,909) | ( 1,300,499) |
| Capital lease payable | ( 130,865) | ( 177,529) |
| Unspent bond proceeds | 7,184,055 | 0 |
| Total | $ 49,374,677 | $ 46,218,605 |

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:

| | 2005 | 2004 |
|---|---|---|
| Designated for endowment purposes | $ 646,227 | $ 584,675 |
| Undesignated | 6,015,000 | 6,970,620 |
| | $ 6,661,227 | $ 7,555,295 |

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

| | 2005 | 2004 |
|---|---|---|
| Provide support for future years' activities | $ 10,693,104 | $ 9,686,627 |

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

| | 2005 | 2004 |
|---|---|---|
| Scholarships and awards | $ 9,098,775 | $ 8,282,058 |
| Academic support | 2,756,707 | 2,555,533 |
| Other | 528,408 | 564,874 |
| | $ 12,383,890 | $ 11,402,465 |

## *HARRISBURG AREA COMMUNITY COLLEGE*
## *SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION*
### *For the years ended June 30, 2005 and 2004*

**2005**

| FUNCTIONAL CLASSIFICATION | NATURAL CLASSIFICATION | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salaries and Wages | Fringe Benefits | Supplies & Other Expense | Professional & Purchased Services | Utilities | Depreciation | Scholarships | Total |
| Instruction | $ 32,159,586 | $ 7,553,657 | $ 3,546,847 | $ 3,293,870 | $ 0 | $ 0 | $ 183,585 | $ 46,737,545 |
| Research | 3,668 | 647 | 140 | 59 | 0 | 0 | 0 | 4,514 |
| Public Support | 600 | 308 | 34,658 | 109,295 | 0 | 0 | 0 | 144,861 |
| Academic Support | 2,594,910 | 708,675 | 926,211 | 48,334 | 0 | 0 | 0 | 4,278,130 |
| Student Services | 5,449,491 | 1,595,552 | 498,833 | 635,925 | 0 | 0 | ( 1,200) | 8,178,601 |
| Institutional Support | 6,229,140 | 2,482,919 | 5,569,860 | 1,977,657 | 0 | 0 | 0 | 16,259,576 |
| Operation and Maintenance of Plant | 2,128,457 | 888,721 | 4,501,094 | 962,678 | 2,379,958 | 4,693,905 | 0 | 15,554,813 |
| Student Aid | 328,447 | 0 | ( 415) | 0 | 0 | 0 | 8,161,025 | 8,489,057 |
| Auxiliary Enterprises | 737,494 | 266,755 | 7,421,845 | 100,756 | 18,570 | 0 | 0 | 8,545,420 |
| Total operating expenses | $ 49,631,793 | $ 13,497,234 | $ 22,499,073 | $ 7,128,574 | $ 2,398,528 | $ 4,693,905 | $ 8,343,410 | $ 108,192,517 |
| Interest expense | | | | | | | | 1,321,130 |
| Total expenses | | | | | | | | $ 109,513,647 |

**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 |

## *HARRISBURG AREA COMMUNITY COLLEGE*

### *Schedule of Expenditures of Federal Awards*
### *For the Year Ended June 30, 2005*

| Federal Grantor/pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass Through Entity Number | Receipts | Expenditures |
|---|---|---|---|---|
| **Department of Education:** | | | | |
| **Student Financial Aid:** | | | | |
| FSEOG Program | 84.007 | N/A | $ 390,993 | $ 385,495 |
| FWS Program | 84.033 | N/A | 341,238 | 344,869 |
| PELL Program | 84.063 | N/A | 9,726,005 | 9,210,417 |
| Perkins loan program | 84.038 | N/A | 0 | 67,414 |
| Total student financial aid | | | 10,458,236 | 10,008,195 |
| **Other:** | | | | |
| Strengthening Institutions | 84.031A | N/A | 50,713 | 50,713 |
| **Other Federal Assistance** | | | | |
| **Passed through Pennsylvania Department of Education** | | | | |
| Adult Basic Education | 84.002 | N/A | 39,746 | 35,436 |
| Vocational Educational Grants Perkins III | 84.048 | N/A | 446,865 | 487,489 |
| Title III-E Tech Prep Education | 84.243 | N/A | 445,965 | 361,556 |
| Total passed through Pennsylvania department of education | | | 932,576 | 884,481 |
| Total Department of Education | | | 11,441,525 | 10,943,389 |
| **Department of Labor:** | | | | |
| **Passed through Pennsylvania Department of Corrections** | | | | |
| Culinary arts training prog. - Dept. of Corrections | 16.579 | N/A | 40,252 | 29,051 |
| **Passed through South Central Employment Corporation** | | | | |
| Regional skills specialist services | 17.260 | N/A | 330,617 | 358,502 |
| Local workforce investment funding | 17.258 | N/A | 46,146 | 46,146 |
| Total passed through south central employment corporation | | | 376,763 | 404,648 |
| Total Department of Labor | | | 417,015 | 433,699 |
| **Department of Health and Human Services** | | | | |
| **Passed through Pennsylvania Department of Public Welfare** | | | | |
| Keystone Stars Support (CCRD) | 93.575 | N/A | 2,734 | 2,734 |
| Job retention, advancement grant | 93.558 | N/A | 46,239 | 36,709 |
| Recruitment and retention grant | 93.558 | N/A | 0 | 10,000 |
| Keystone education yields success (KEYS) | 93.558 | N/A | 0 | 33,701 |
| Total passed through Pennsylvania department of public welfare | | | 48,973 | 83,144 |
| **Passed through Pennsylvania Department of Community and Economic Development** | | | | |
| Child Care Challenge Grant | 93.558 | C000007283 | 0 | 358,592 |
| **Passed through South Central Employment Corporation** | | | | |
| Tuition based SPOC program | 93.558 | N/A | 19,624 | 100,729 |
| Total Department of Health and Human Services | | | 68,597 | 542,465 |
| **National Science Foundation** | | | | |
| ATE Regional Center for Nanofabrication Manufacturing Education | 47.076 | N/A | 35,968 | 15,227 |
| **Corporation for National and Community Service** | | | | |
| Americorp grant | 94.006 | N/A | 13,755 | 18,688 |
| **Total federal financial assistance** | | | $ 11,976,860 | $ 11,953,468 |

## *NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

**Note 1. General Information/Basis of Accouning**

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, 2005 are identified below:

| | CFDA Number | Disbursements | |
|---|---|---|---|
| Perkins Loan Program | 84.038 | $ 61,956 | New Loans |
| | | 5,458 | Expenses |
| | | $ 67,414 | |
| Federal Stafford and PLUS Loans | 84.032 | $ 28,002,530 | New 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, 2005 was $ 239,131, 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.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2005, and have issued our report thereon dated October 11, 2005. 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. Our consideration of the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

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 matters that we reported to management of Harrisburg Area Community College, in a separate letter dated October 11, 2005.

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 11, 2005

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

**_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, 2005. 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, 2005.

**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.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

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.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 11, 2005

*HARRISBURG AREA COMMUNITY COLLEGE*

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*
*For the Year Ended June 30, 2005*

## I. Summary of Auditor's Results:

***Financial Statements:***

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

***Federal Awards:***

| | | | |
|---|---|---|---|
| (iv) | Internal control over major programs:<br>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 |
| 93.558 | Temporary Assistance for Needy Families |
| 17.258 - 17.260 | Workforce Investment Act (cluster) |

| | | | |
|---|---|---|---|
| (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 |

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)*
## *For the Year Ended June 30, 2005*

**Part II**

**Financial Statement Findings Section:**

None

**Federal Awards Findings Section:**

None

***HARRISBURG AREA COMMUNITY COLLEGE***

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***
***JUNE 30, 2005***

| Reference Number | Finding |
| --- | --- |
| Matters noted at June 30, 2004. | |
| 2004-1 | Stafford loan cash account does not match the Stafford loan clearing account and an explanation to support the details of the clearing account was not available. |
| | STATUS: This issue was corrected during the current year. |