HARRISBURG AREA COMMUNITY COLLEGE

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

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HARRISBURG AREA COMMUNITY COLLEGE

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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, 2006 and 2005, 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, 2006 and 2005, 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 4, 2006 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 4, 2006

Harrisburg Area Community College
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2006, 2005, and 2004

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, 2006 and the results of operations for the year then ended, with selected comparative information for the years ended June 30 2005 and 2004. 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) principals which establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented to focus on the College as a whole. 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, 2006. Net assets increased $7.2 million over the prior year.

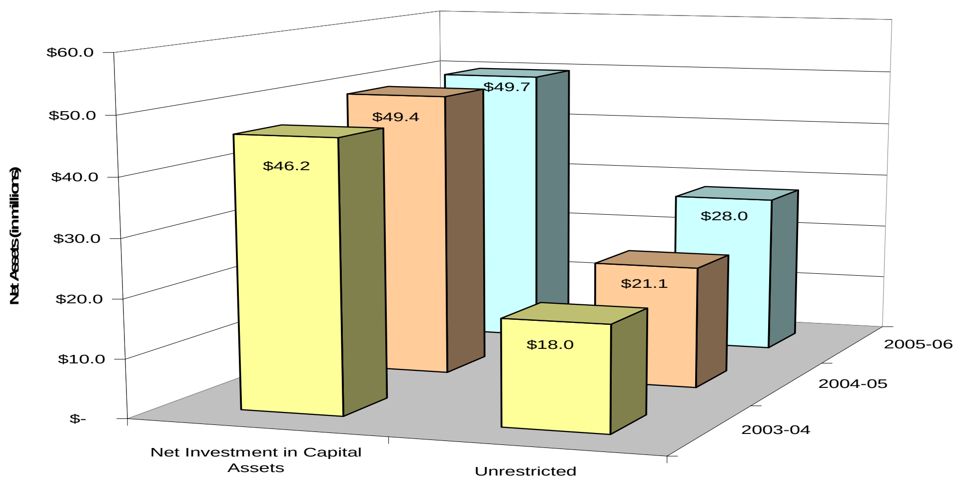
At June 30, 2006 HACC's assets of $130.6 million exceeded it's liabilities of $52.9 million by $77.7 million, an increase over the prior year of $7.2 million. At June 30, 2005, assets of $123.4 million exceeded liabilities of $52.9 million by $70.5 million, an increase over the prior year of $6.3 million. 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 2006, 2005 and 2004.

Net Assets as of June 30

(In millions)

	2006	2005	Increase (Decrease) 2006 - 2005	2004	Increase (Decrease) 2005 – 2004
Invested in capital assets, net of related debt	$ 49.7	$ 49.4	$ 0.3	$ 46.2	$ 3.2
Unrestricted	28.0	21.1	6.9	18.0	3.1
Total Net Assets	$ 77.7	$ 70.5	$ 7.2	$ 64.2	$ 6.3

Comparison of Net Assets Fiscal Years 2004, 2005, 2006



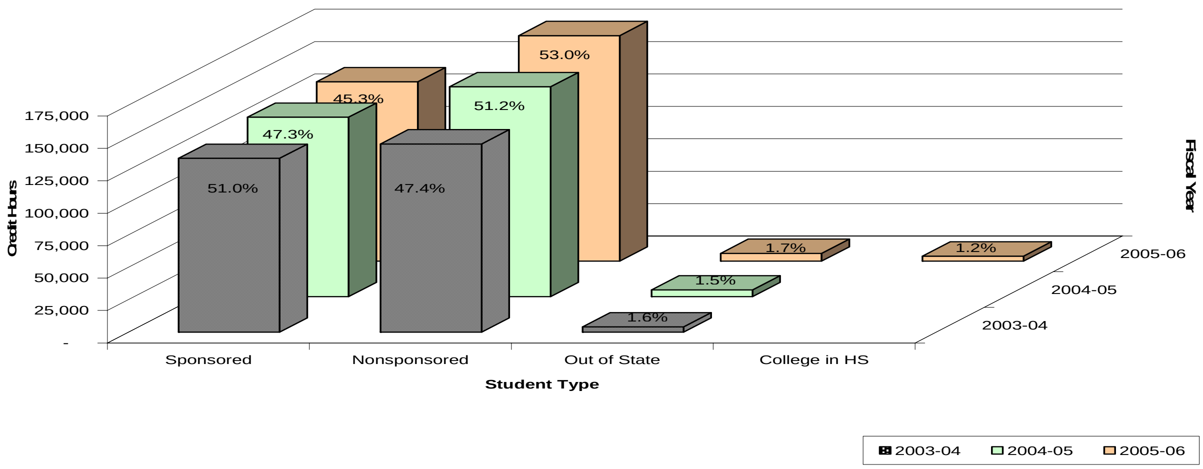
Total credit hour enrollment increased once again in 2006 but at a rate of increase lower than that which occurred in 2005. Total credit hour production of 321,756 was 16,392 credit hours or a 5.4% growth from 2005 credit hours of 305,364. In 2005 the growth was 21,851 credit hours or 7.7% higher than 2004 credit hours of 283,513. In 2006 the most significant growth was in York and Virtual.

Since fiscal year 2004, HACC's nonsponsored credit hour enrollments have exceeded sponsored credit hours. Each fiscal year a greater percentage of the total credit hours produced have come from nonsponsored students. In 2006 the 173,762 nonsponsored credit hours represents 54% of the total. This is up from 161,817 credit hours or 53% of total in 2005 and 145,222 credit hours or 51.2% in 2004. This shows the continuing growth occurring at the regional campuses. Each nonsponsored student pays two parts tuition or $156 per credit hour in 2006, where a sponsored student pays one part tuition, or $78 per credit hour and receives local school district support for the other $78 per credit hour. This regional campus growth is supported by additional capacity on the Lancaster Campus from a second classroom building, both additional space and program offerings at the York Center, and growth in on-line class availability.

Also experiencing growth is HACC's College in the High School (CHS) program. Here high school students attend HACC classes taught during the day at their high school and earn college credit. All direct instructional costs associated with this program are carried by the participating school so these students pay a discounted tuition rate. In prior years CHS credit hours were included with nonsponsored but with program growth this year we have discretely identified them on the "Credit Hour Production by Student Type" chart below.

The following charts show enrollment changes for the fiscal years 2004, 2005, and 2006.

Credit Hour Production by Student Type



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 strong financial position with net assets increasing the past two years.

Statement of Net Assets
(In millions)

	2006	2005	Increase (Decrease) 2006 - 2005	2004	Increase (Decrease) 2005 - 2004
Assets					
Current Assets	$ 48.1	$ 47.8	$ 0.3	$ 30.9	$ 16.9
Noncurrent Assets	82.5	75.6	6.9	61.1	14.5
Total Assets	130.6	123.4	7.2	92.0	31.4
Liabilities					
Current Liabilities	18.7	19.5	(0.8)	12.1	7.4
Noncurrent Liabilities	34.2	33.4	0.8	15.7	17.7
Total Liabilities	52.9	52.9	0.0	27.8	25.1
Net Assets					
Invested in Capital Assets, net of debt	49.7	49.4	0.3	46.2	3.2
Unrestricted	28.0	21.1	6.9	18.0	3.1
Total Net Assets	$ 77.7	$ 70.5	$ 7.2	$ 64.2	$ 6.3

In 2006 current assets decreased only $0.3 million. Within current assets cash and cash equivalents increased $3.3 million largely resulting from a 5.4% enrollment growth, 3.3% tuition increase and $2.6 million (10%) increase in the state operating appropriation in 2006. Short term investments were reduced by $2.8 million which includes the use of $7.2 million of available bond proceeds to complete the associated projects. There was also the elimination of a 2004 receivable due from the Commonwealth of $1.3 million on June 30, 2005. In 2006 the Commonwealth paid HACC $415,059 as well as reducing the receivable by $106,343 for 2004 state audit findings leaving a balance of $811,055. With the new state funding formula in effect eliminating the possibility of unused allocation monies for disbursement and conversation with the Department of Education indicating we would not be able to use any remaining 2004 receivable to offset state audit findings from any year other than 2004 it was clear HACC would not recover these funds from the Commonwealth, so in 2006, we wrote off the balance of this receivable. Another current asset change was a $561,000 increase in inventories associated with the expansion of HACC's in-house operation of bookstores at each campus including the York Center.

Noncurrent assets increased $6.9 million for capital additions in 2006. This represents the completion of major projects begun in 2005 including construction of two new buildings on the Harrisburg Campus and renovations on the Lancaster and Gettysburg campuses. Also included is the renovation of the York Center which opened in Fall 2005 funded by a $5.4 million bond issuance that closed in July 2005. The growth at the York Center quickly created the need to expand the location and renovate additional space using proceeds from a $1 million loan obtained in May 2006.

Net assets increased to $77.7 million as of June 30, 2006. 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 present 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.

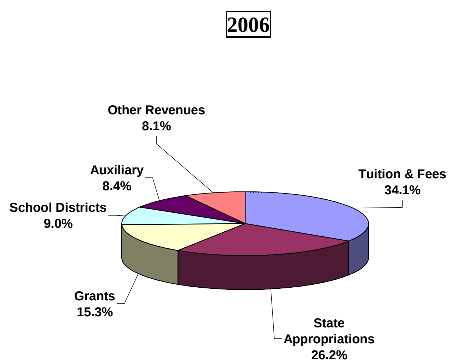
Operating revenues are those received by the College for directly providing goods and services. Non-operating revenues are those that exclude a direct exchange of goods and services. State and School District appropriations are classified as non-operating revenues since these governmental agencies do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

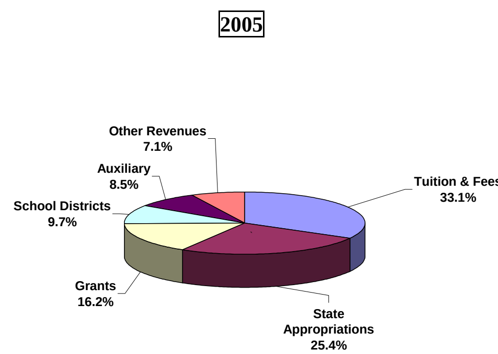
The following chart is a summarized version of the College's revenues, expenses and changes in net assets for years ended June 30, 2006, 2005 and 2004 and graphical representations of revenues and expenses by category.

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

	2006	2005	Increase (Decrease) 2006 - 2005	2004	Increase (Decrease) 2005 - 2004
Operating Revenues	$ 76.8	$ 68.9	$ 7.9	$ 61.6	$ 7.3
Operating Expenses	121.7	108.2	13.5	93.6	14.6
Operating Income (Loss)	(44.9)	(39.3)	(5.6)	(32.0)	(7.3)
Non-operating Revenues (Net)	43.0	39.0	4.0	35.7	3.3
Net Income (Loss) Before Capital Contributions	(1.9)	(0.3)	(1.6)	3.7	(4.0)
Capital Contributions	9.1	6.5	2.6	5.0	1.5
Increase (Decrease) in Net Assets	$ 7.2	$ 6.2	$ 1.0	$ 8.7	($ 2.5)

Total Operating and Non-operating Revenue





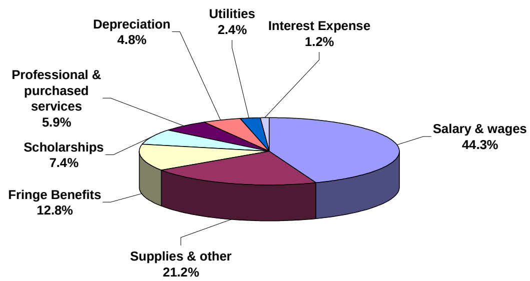
Total operating revenues for 2006 were $76.8 million, an increase of $7.9 million from the prior year. Total operating revenues for 2005 were $68.9 million, an increase of $7.3 million from 2004. The most significant sources of operating revenue at HACC are tuition and fees, federal and state grants which include financial aid, and auxiliary services.

In 2006 the $5.4 million increase in student tuition and fees can be attributed to a 5.4% growth (16,392 credit hours) in enrollments, a 3.3% tuition increase to $78.00 per credit hour in 2006 from $75.50 in 2005 and the implementation of a new institutional fee in Fall 2005 which generated $1.6 million in 2006. The percentage of total credit hours taken by nonsponsored students continued to grow. In 2006, nonsponsored students represented 54.0% of total credit hours, up from 53.0% in 2005 which was up from 51.2% in 2004. The financial statement impact of nonsponsored students on tuition and fees is the result of a nonsponsored student paying $156 per credit hour in tuition, while a sponsored student pays only $78 in tuition. The other $78 for sponsored students is funded by local school districts, and as such is reported as non-operating revenues.

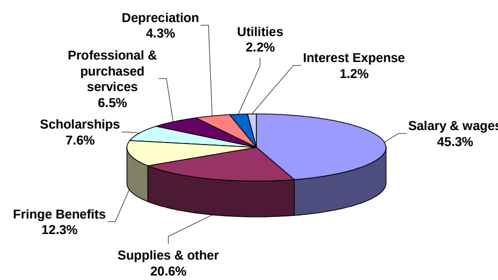
Fiscal 2006 had a $1.0 million increase in financial aid grants for students. Finally, bookstore sales exceeded 2005 by $1.0 million. This increase in revenue stems from enrollment growth, increased costs of text books, and the College's in-house operation of the bookstore at each campus, including the new bookstore at the York Center.

Total Operating Expenditures by Natural Source

2006

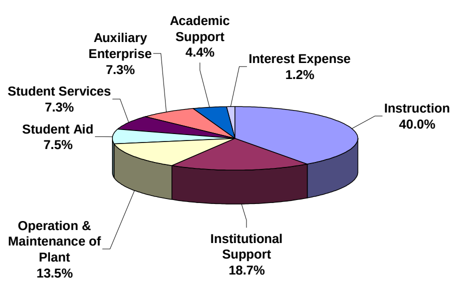


2005

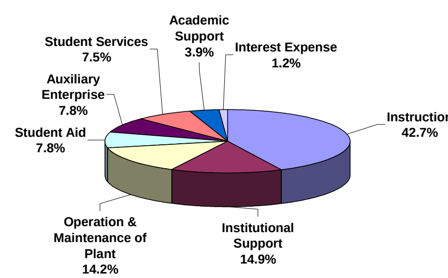


Total Operating Expenditures by Function

2006



2005



Operating expenses in fiscal 2006 totaled $121.7 million, an increase of $13.5 million from the prior year. Operating expenses in fiscal 2005 were $108.2 million, an increase of $14.6 million from the prior year. As would be expected, most of this increase is in salary and benefits. Salaries and wages were up $4.9 million from the prior year. The driving increase was a 3.8% salary increase in 2006, 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 college-wide including staffing of the expanded York Center. The fringe benefit category saw a 16.8% ($2.3 million) increase from 2005. In addition to increases in the medical insurance costs in 2006 the HACC Plan was increased from $500 per full-time employee to $725. This is the first time in many years that this program was increased. Also, a vision plan was added to the benefits. Fiscal year 2006 saw the implementation of employee co-pay towards medical insurance premiums. Other notable increases in fringe benefits were FICA and retirement which are salary driven.

Supplies and Other Expenses increased by $3.6 million (16.1%) in 2006. This category includes the write off of the remaining 2004 receivable due from the Commonwealth previously discussed, a full year of lease payments for the second classroom building in Lancaster, the lease of lots 5 & 6 in Lancaster (parking lots) and the facility lease for the York Center.

Total non-operating revenues for fiscal 2006 were $43 million, an increase of $4 million from the prior year. Non-operating revenues increased $3.3 million in 2005. Included here are state and local appropriations both of which increased. Our local school district sponsors increase of $378,000 was due to the 3.3% tuition increase in 2006. In 2006 the Commonwealth instituted a new formula for funding Pennsylvania community colleges. In the past HACC was reimbursed for every full-time equivalent (FTE) student at a set rate. Now the Commonwealth's operating budget appropriation is shared among the 14 Pennsylvania community colleges based on each college's share of total FTE generated in the prior fiscal year. There are four different pools of funds within the operating budget appropriation. These pools are base operating, base supplemental, growth supplemental and economic development. The base operating is the college's guaranteed funding level and is the total of the prior fiscal year's base operating, base supplemental and growth supplemental appropriations. This guaranteed source of funding provides 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. The economic development pool of funds replaces stipend funding in the old funding formula and provides additional support for those programs, both credit and noncredit, the state has determined to have a high priority need for training within the Commonwealth. The economic development funds are allocated based on each community college's share of total FTE generated in high priority programs in the prior fiscal year. Any funds remaining in the state's appropriation are then split 75% base supplemental and 25% growth supplemental. The base supplemental is allocated based on HACC's FTE percentage share of total community college FTE for the prior fiscal year. Growth supplemental is divided among those community colleges with FTE growth in the last audited fiscal year or two years prior to the allocation. Going forward funds available for growth are limited to the State's annual increase to the community college operating budget appropriation. Under the new formula HACC's state operating budget appropriation increased $2.6 million or 10.1% in 2006.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase of $7.2 million in 2006 up from the $6.2 million increase to net assets in 2005.

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 assess the College's ability to meet it's obligations as they come due, and need for external financing. HACC's liquidity remains strong, and had increased by $3.4 million as of June 30, 2006.

The following is a summary of the statement of cash flows for the years ended June 30, 2006, 2005 and 2004.

Cash Flows
(In millions)

	2006	2005	Increase (Decrease) 2006 - 2005	2004	Increase (Decrease) 2005 - 2004
Cash Provided (Used) By:					
Operating Activities	($ 38.3)	($ 32.7)	($ 5.6)	($ 27.8)	($ 4.9)
Noncapital Financing Activities	44.7	40.2	4.5	34.4	5.8
Capital Financing Activities	(7.2)	8.3	(15.5)	(3.4)	11.7
Investing Activities	4.2	(9.2)	13.4	1.2	(10.4)
Net Increase in Cash and Cash Equivalents	3.4	6.6	(3.2)	4.4	2.2
Cash and Cash Equivalents - Beginning of Year	24.2	17.6	6.6	13.1	4.5
Cash and Cash Equivalents - End of Year	$ 27.6	$ 24.2	$ 3.4	$ 17.5	$ 6.7

Capital Asset and Debt Administration:

Capital Plan

In fiscal 2006 HACC began completing deferred maintenance projects identified in the College's 10 year facility master plan. During 2006 the facility master plan was also used in decisions on how to best support continued growth at HACC. The resulting recommendations are to increase available space in mid-town Harrisburg by leasing a building near the Community Center for Technology and Arts building and the purchase of the current Gettysburg Campus location for additional space to support current and future needs. The planned implementation of these expansion projects is fiscal year 2008.

Capital Assets and Debt

During the year ended June 30, 2006, the College had total capital additions of $12.8 million after the adjustment for construction in progress of $15.1 million recognized in 2005 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 and leasehold improvements and equipping of the leased York Center. These buildings were completed and opened for the Fall 2005 semester and final payments of $7.4 million were made during 2006. The rapid growth at the York Center required $700,000 in Phase III renovation of additional space during 2006. Also included in the capital additions are acquisition of instructional and other equipment of $2.7 million and $2.0 million of various other improvements on the College's campuses. These campus improvements include master plan deferred maintenance projects to replace the roof condensing units at the Lebanon campus, and replace the cooling tower on Mumma Hall and for ADA compliance replace the ramp at the Rose Lehrman Arts building on the Harrisburg campus.

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 2005, the College issued $5.4 million in bonds through the State Public School Board Authority to fund renovations to the York Center. In May 2006 the College obtained a $1 million revolving loan from the State Public School Board Authority to fund the York Center Phase III renovation costs.

Fiscal 2006 is the first year the Commonwealth funded debt service and leases from a separate capital appropriation created for these capital projects. For 2006 the Commonwealth increased its capital appropriation to the community colleges by $9 million. The principal uses of these funds are debt service, facility leases and maintenance projects with a portion to continue to be allocated to fund computer leases. By fiscal year 2009 HACC will have lost all capital funding for the college's operating leases such as copiers, software licenses, and telephone lines. In 2006 HACC received an additional $3.0 million to support both debt service and facility leases for those projects approved by PDE at a time when no state dollars were available. As of 2006 HACC's 2004 and 2005 bond issues, Penn Center and Lancaster Phase II leases now receive 50% of cost from the state. The current projects not yet approved for capital funding by the Commonwealth are the May 2006 loan for Phase III of the York Center and the facility lease for York Center. This increased state capital funding has permitted HACC to redirect the operating revenues previously used to fund these capital projects to cover other needs of the College.

Economic Factors That Will Affect the Future:

The economic position of HACC is closely tied to the economy and the State's budget. Larger high school graduating classes, the College's expansion into new markets, and increased retention efforts have resulted in continued enrollment growth. Of particular note is the enrollment growth with expansion of on-line courses offered by the Virtual Campus and the establishment of the permanent York Center.

In 2006 HACC has benefited from the change to the new state funding formula. We saw our operating budget appropriation increase by $2.6 million or 10.1% above 2005 and our capital funding increased by $3.0 million or 81.1%. Currently we know our 2007 state operating budget appropriation has increased $1.6 million or $5.5%. At this time any additional capital funding for 2007 is unknown. Going forward any increase in HACC's state appropriation is dependent on the state's increase to the community college operating budget and capital appropriations. The guaranteed base operating funding is helpful if an unanticipated enrollment decline occurs but funds available to support growth are limited to the state's annual percentage increase to the community college operating budget appropriation. Limited funding for growth allocated on enrollments from two years prior to the current budget year is a new factor to be considered as we contemplate growth and new markets.

Overall, the College's current financial position is very strong as shown in these 2006 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.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2006	**2005**	**2006**	**2005**
ASSETS				
Current Assets				
Cash and cash equivalents	$ 27,605,480	$ 24,154,555	$ 2,836,339	$ 1,928,622
Short-term investments	9,695,379	12,528,955	1,528,388	1,278,170
Accounts receivable, net	7,379,585	8,286,588	2,413,762	3,935,154
Loans receivable	48,960	40,320	0	0
Other assets	1,230,215	809,769	0	0
Inventories	1,970,368	1,409,311	0	0
Due from HACC Foundation	154,209	569,641	0	0
Total Current Assets	48,084,196	47,799,139	6,778,489	7,141,946
Noncurrent Assets				
Long-term investments	0	0	24,173,635	24,177,016
Loans receivable	224,454	240,882	0	0
Capital assets net of accumulated depreciation	82,312,857	75,417,407	0	0
Total Noncurrent Assets	82,537,311	75,658,289	24,173,635	24,177,016
Total Assets	$ 130,621,507	$ 123,457,428	$ 30,952,124	$ 31,318,962
LIABILITIES				
Current Liabilities				
Due to HACC	$ 0	$ 0	$ 154,209	$ 569,641
Accounts payable and accrued expenses	11,944,183	12,790,761	0	0
Deposits held in custody for others	620,555	494,886	0	0
Unearned revenue	1,567,684	1,783,323	1,501	11,100
Current portion of long term liabilities	4,561,532	4,471,314	100,000	100,000
Total Current Liabilities	18,693,954	19,540,284	255,710	680,741
Noncurrent Liabilities				
Long-term liabilities	34,225,870	33,411,443	602,313	900,000
Total Noncurrent Liabilities	34,225,870	33,411,443	602,313	900,000
Total Liabilities	52,919,824	52,951,727	858,023	1,580,741
NET ASSETS				
Invested in capital assets, net of related debt	49,671,132	49,374,677	0	0
Restricted - nonexpendable	0	0	10,575,467	12,383,890
Restricted - expendable	0	0	13,403,890	10,288,082
Unrestricted	28,030,551	21,131,024	6,114,744	7,066,248
Total Net Assets	77,701,683	70,505,701	30,094,101	29,738,220
Total Liabilities and Net Assets	$ 130,621,507	$ 123,457,428	$ 30,952,124	$ 31,318,961

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
Years Ended June 30, 2006 and 2005

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2006	**2005**	**2006**	**2005**
REVENUES				
Operating Revenues				
Student tuition and fees	$ 46,671,255	$ 41,812,677	$ 0	$ 0
Scholarship allowance and discounts	(5,138,853)	(5,674,686)	0	0
Federal grants	11,951,131	11,482,543	0	0
State and local grants	6,263,909	5,719,903	0	0
Nongovernmental grants	385,993	532,888	0	0
Sales and services of auxiliary enterprises	10,208,292	9,291,579	0	0
Other operating revenues	6,487,816	5,728,327	0	0
Contributions	0	0	2,059,323	3,586,023
Investment income, net of investment expense of $ 92,941 - 2006 and $ 53,475 - 2005	0	0	677,730	522,372
Realized and unrealized gains (losses) on investments	0	0	756,743	1,650,530
Total Operating Revenues	76,829,543	68,893,231	3,493,796	5,758,925
EXPENSES				
Operating Expenses				
Salaries and wages	54,582,892	49,631,793	191,535	153,190
Fringe benefits and payroll taxes	15,768,223	13,497,234	66,659	40,352
Supplies and other expense	26,110,601	22,499,073	235,063	197,678
Professional and purchased services	7,235,115	7,128,574	113,229	57,331
Utilities	2,958,647	2,398,528	0	0
Depreciation and amortization	5,874,365	4,693,905	0	0
Scholarships	9,150,455	8,343,410	786,159	654,757
Contributions and grants	0	0	1,745,270	3,561,784
Total Operating Expenses	121,680,298	108,192,517	3,137,915	4,665,092
Operating Income (Loss)	(44,850,755)	(39,299,286)	355,881	1,093,833
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	30,608,467	27,746,179	0	0
Local appropriations	10,919,391	10,541,357	0	0
Gifts	1,354,389	1,156,458	0	0
Gain on sale of assets	201,275	0	0	0
Investment income, net of investment expenses of $11,493 - 2006 and $12,170 - 2005	1,423,856	875,523	0	0
Interest on capital asset related debt	(1,538,816)	(1,321,130)	0	0
Total Non-Operating Revenues, net	42,968,562	38,998,387	0	0
Net Income Before Capital Contributions	(1,882,193)	(300,899)	355,881	1,093,833
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	200,000	200,000	0	0
Capital appropriations - state sources	7,107,008	3,763,105	0	0
Capital grants and gifts	1,771,167	2,572,442	0	0
Total Capital Contributions	9,078,175	6,535,547	0	0
Increase in Net Assets	7,195,982	6,234,648	355,881	1,093,833
Net Assets - Beginning of Year	70,505,701	64,271,053	29,738,220	28,644,387
Net Assets - End of Year	$ 77,701,683	$ 70,505,701	$ 30,094,101	$ 29,738,220

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	PRIMARY INSTITUTION 2006	PRIMARY INSTITUTION 2005	COMPONENT UNIT FOUNDATION 2006	COMPONENT UNIT FOUNDATION 2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments received for tuition and fees	$ 42,111,711	$ 36,166,144	$ 0	$ 0
Payments received from grants and contracts	18,045,848	17,622,930	0	0
Payments received from auxiliary enterprise charges	10,074,535	9,256,209	0	0
Payments received from other revenues	6,505,722	5,691,388	0	0
Payments received from donors (temporary and unrestricted)	0	0	774,770	1,650,140
Payments received from investment activities	0	0	316,804	235,230
Payments to and on behalf of employees	(67,961,307)	(62,408,880)	(258,194)	(193,542)
Payments to suppliers for goods and services	(37,898,952)	(30,717,246)	(277,892)	(215,794)
Payments for interest	0	0	(49,177)	(26,993)
Payments for contributions and grants	0	0	(2,268,823)	(3,268,207)
Payments for financial aid and scholarships	(9,142,668)	(8,340,185)	(694,953)	(683,288)
Net cash used in operating activities	(38,265,111)	(32,729,640)	(2,457,465)	(2,502,454)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	31,966,081	28,236,396	0	0
Local appropriations	11,349,336	10,866,977	0	0
Gifts received	1,404,296	1,131,809	0	0
Collection of contributions restricted for long-term purposes	0	0	2,812,799	905,368
Collection of investment income restricted for long-term purposes	0	0	340,165	287,333
Proceeds from borrowing	0	0	0	1,000,000
Cash provided by financing activities	0	0	(297,687)	0
Net cash provided by noncapital financing activities	44,719,713	40,235,182	2,855,277	2,192,701
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Capital debt financing	5,305,690	26,217,250	0	0
State and local appropriations	7,321,356	3,963,105	0	0
Capital grants and gifts received	2,134,443	2,435,031	0	0
Purchases of capital assets	(16,017,908)	(15,353,731)	0	0
Proceeds from sale of capital assets	201,275	0	0	0
Principal paid on debt and capital leases	(4,638,944)	(7,699,255)	0	0
Interest paid on debt and capital leases	(1,516,222)	(1,252,539)	0	0
Net cash provided (used) by capital financing activities	(7,210,310)	8,309,861	0	0
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(7,950,000)	(12,054,055)	(72,246,744)	(27,147,640)
Proceeds from sale/maturities of investments	10,774,878	2,000,000	72,756,649	27,864,483
Investment income	1,381,755	818,112	0	0
Net cash provided (used) by investing activities	4,206,633	(9,235,943)	509,905	716,843
Increase in cash and cash equivalents	3,450,925	6,579,460	907,717	407,090
Cash and Cash equivalents - Beginning of Year	24,154,555	17,575,095	1,928,622	1,521,532
Cash and Cash equivalents - End of Year	$ 27,605,480	$ 24,154,555	$ 2,836,339	$ 1,928,622

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS - CONTINUED
Years Ended June 30, 2006 and 2005

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2006	2005	2006	2005
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	($ 44,850,755)	($ 39,299,286)	$ 355,881	$ 1,093,834
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Depreciation and amortization expense	5,874,365	4,693,905	0	0
Loss on disposal of capital assets	25,929	7,166	0	0
Realized and unrealized (gain) loss on investments	0	0	(756,743)	(1,650,530)
Contributions restricted for long-term investment	0	0	(2,812,799)	(905,368)
Contributions of investment income restricted for long-term purposes	0	0	(340,165)	(287,333)
(Increase) Decrease in:				
Accounts receivable	21,870	375,311	1,521,392	(1,025,220)
Inventory	(561,057)	(300,618)	0	0
Other assets	(454,843)	(228,437)	0	1,000
Increase (Decrease) in:				
Unearned revenue	0	0	(9,600)	(3,025)
Accounts payable and accrued expense	1,553,711	1,859,996	(415,431)	274,188
Deposits	125,669	162,323	0	0
Net cash used in operating activities	($ 38,265,111)	($ 32,729,640)	($ 2,457,465)	($ 2,502,454)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS				
Capital gifts of equipment and buildings	$ 41,745	$ 137,410	$ 0	$ 0
Realized and unrealized gains (losses) on investments	($ 5,720)	($ 1,866)	$ 756,743	$ 1,650,530

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, Lebanon, and York, 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

Note 1. Summary Of Significant Accounting Policies (Continued)

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, 2006 and 2005. 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 the 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 11 for additional information.

Reclassifications – Certain 2005 amounts have been reclassified to conform with 2006 presentation. These reclassifications have no effect on net income.

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, 2006, $ 23,992,233 of the College’s bank balance of $ 24,336,136 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	23,992,233
	$ 23,992,233

Included in investments on the statement of net assets are CD’s invested in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 7,950,000, all with maturities of greater than three months. 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 $ 7,487,496 and the Commonfund – Short-term fund of $ 5,162,689. 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, 2006, 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, 2006, the College's investment of $ 466,202 in the Commonfund – Intermediate Term Fund was rated AA+ by Standard & Poor's Investors Service. The College's investment of $ 1,279,177 in the J P Morgan US Treasury Plus Money Market Fund was rated AAAm 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, 2006, the College had the following investments that were subject to interest rate risk. The College does not have a written policy for interest rate risk.

Investment	Maturity	Fair Value
J P Morgan US Treasury Plus Money Market Fund	N/A	$ 1,279,177
Commonfund - Short-Term	Effective Duration 2.86 months	5,162,689
Commonfund - Intermediate Term Fund	Effective Duration 1.59 years	466,202

Investments of the HACC Foundation as of June 30, 2006 and 2005 are comprised of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
		2006	
Money market funds	$ 1,528,388	$ 1,528,388	$ 0
Equities	11,558,081	11,939,309	381,228
Mutual Funds	8,719,590	8,567,552	(152,038)
Government obligations	2,839,428	2,743,862	(95,566)
Corporate bonds	978,407	922,912	(55,495)
	$ 25,623,894	$ 25,702,023	$ 78,129

	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	3,749,740	3,794,961	45,221
Corporate bonds	1,944,111	1,950,916	6,805
	$ 22,412,228	$ 25,455,186	$ 3,042,958

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	College		HACC Foundation	
	2006	2005	2006	2005
Student Tuition and fees	$ 4,120,811	$ 3,766,131	$ 0	$ 0
Allowance for doubtful accounts	(500,000)	(400,000)	0	0
Grants and contracts receivable	1,616,755	1,651,374	0	0
State appropriations receivable	5,821	1,401,952	0	0
Bookstore receivables	846,986	712,402	0	0
Other receivables	1,289,212	1,154,729	83,485	62,724
Pledges receivables (net)	0	0	2,193,866	3,744,239
Charitable remainder annuity trust held by outside party	0	0	136,411	128,191
Total	$ 7,379,585	$ 8,286,588	$ 2,413,762	$ 3,935,154

Bookstore receivables include $ 841,114 and $ 559,230 in vendor credit memos at June 30, 2006 and 2005, 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 5% for June 30, 2006 and 4% for June 30, 2005. The unamortized discount was $ 251,318 and $ 390,127 at June 30, 2006 and 2005.

Note 5. Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2006 and 2005:

2006	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Cost:				
Land	$ 1,639,470	$ 0	$ 0	$ 1,639,470
Building	51,555,745	12,137,089	0	63,692,834
Improvements - land	1,167,823	186,996	0	1,354,819
Improvements - building	15,015,204	3,984,626	0	18,999,830
Improvements - leasehold	3,298,378	5,927,540	0	9,225,918
Instructional equipment	20,342,157	3,437,426	(12,062)	23,767,521
Non-instructional equipment	8,065,932	2,217,271	(326,218)	9,956,985
Construction in progress	15,116,263	0	(15,116,263)	0
Total cost	116,200,972	27,890,948	(15,454,543)	128,637,377
Less accumulated depreciation:				
Building	(18,724,145)	(1,511,398)	0	(20,235,543)
Improvements - land	(206,568)	(64,294)	0	(270,862)
Improvements - building	(5,396,598)	(925,118)	0	(6,321,716)
Improvements - leasehold	(511,053)	(346,860)	0	(857,913)
Instructional equipment	(8,609,436)	(1,150,906)	0	(9,760,342)
Non-instructional equipment	(7,335,765)	(1,854,730)	312,351	(8,878,144)
Total accumulated depreciation	(40,783,565)	(5,853,306)	312,351	(46,324,520)
Capital assets, net	$ 75,417,407	$ 22,037,642	($ 15,142,192)	$ 82,312,857

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	1,899	1,167,823
Improvements - building	14,218,134	793,536	3,534	15,015,204
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)	(1,288,283)	0	(18,724,145)
Improvements - land	(153,017)	(53,551)	0	(206,568)
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)	(761,812)	0	(8,609,436)
Non-instructional equipment	(5,898,578)	(1,618,772)	181,584	(7,335,765)
Total accumulated depreciation	(36,308,191)	(4,656,959)	181,584	(40,783,565)
Capital assets, net	$ 60,887,135	$ 14,577,447	($ 47,176)	$ 75,417,407

Note 6. Other Assets

Other assets of the College at June 30 consist of:

	2006	2005
Prepaid expenses	$ 879,407	$ 540,385
Bond issue costs	469,613	478,336
Accumulated amortization - bond issue costs	(118,805)	(208,952)
	$ 1,230,215	$ 809,769

Note 7. Changes in Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2006 and 2005:

2006

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 130,865	$ 0	($ 48,679)	$ 82,186	$ 50,783	$ 31,403
Bonds and notes payable:						
Series of 1995 C and D	8,245,000	0	(1,675,000)	6,570,000	1,760,000	4,810,000
Series of 2004	24,560,000	0	(1,875,000)	22,685,000	1,920,000	20,765,000
Series of 2005	0	5,435,000	(470,000)	4,965,000	485,000	4,480,000
Note payable - 2001	627,909	0	(627,909)	0	0	0
Note payable - 2006	0	61,326	0	61,326	61,326	0
Bond premium	51,101	0	(2,686)	48,415	2,686	45,729
Bond discount	0	(25,116)	1,255	(23,861)	(1,256)	(22,605)
Loss on refinancing	(118,706)	0	6,235	(112,471)	(6,235)	(106,236)
Total leases and bonds/notes payable	33,496,169	5,471,210	(4,691,784)	34,275,595	4,272,304	30,003,291
Other liabilities:						
Compensated absences:						
Vacation leave	1,962,372	347,763	(171,233)	2,138,902	137,884	2,001,018
Sick leave	2,276,179	73,352	(87,424)	2,262,107	114,175	2,147,932
Early retirement payable	148,037	0	(37,239)	110,798	37,169	73,629
Total other liabilities	4,386,588	421,115	(295,896)	4,511,807	289,228	4,222,579
Total long-term liabilities	$ 37,882,757	$ 5,892,325	($ 4,987,680)	$ 38,787,402	$ 4,561,532	$ 34,225,870

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

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

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2006 and 2005 consist of the following:

	2006	2005
1995 D, issued $ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011	$ 6,570,000	$ 8,245,000
2004, issued $ 26,530,000 in July 2004; at 2.25% - 5.25% interest and principal payable semi-annually through April 2024	22,685,000	24,560,000
2005, issued $ 5,435,000 in July 2005; at 3.00% - 4.00% interest and principal payable semi-annually through April 2015	4,965,000	0
Total bonds payable	$ 34,220,000	$ 32,805,000

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 on July 1, 2006 are as follows:

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	$ 2,128,235	$ 718,234	$ 2,036,765	$ 673,799	$ 4,165,000	$ 1,392,034	$ 5,557,034
2008	2,217,157	627,301	2,117,843	586,515	4,335,000	1,213,816	5,548,816
2009	1,872,946	547,245	1,772,054	506,399	3,645,000	1,053,645	4,698,645
2010	1,809,882	465,634	1,730,118	431,727	3,540,000	897,362	4,437,362
2011	1,880,278	393,558	1,794,722	361,101	3,675,000	754,659	4,429,659
2012-2016	4,190,000	1,114,902	4,790,000	1,114,902	8,980,000	2,229,804	11,209,804
2017-2021	1,707,500	563,301	1,707,500	563,301	3,415,000	1,126,603	4,541,603
2022-2024	1,232,500	131,644	1,232,500	131,644	2,465,000	263,288	2,728,288
Total	$ 17,038,498	$ 4,561,820	$ 17,181,502	$ 4,369,389	$ 34,220,000	$ 8,931,209	$ 43,151,209

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 7. Changes in Long-Term Liabilities (Continued)

Note Payable

The general obligation note payable of $1,000,000 to the State Public School Building Authority (SPSBA) dated May 1, 2006 has an interest rate of 4.70% and a maturity date of May 1, 2011. Interest and principal are payable semi-annually beginning November 1, 2006. The note is not secured. As of June 30, 2006, the amount drawn on the note was $ 61,326.

Subsequent Event

Subsequent to year end, on August 9, 2006 and September 13, 2006, the College drew down $ 650,544 and $ 247,391, respectively, on the 2006 note payable. This was used to provide funding for the capital projects the college is undertaking at the York facility.

The scheduled payments for the 2006 note are as follows:

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	$ 0	$ 0	$ 181,881	$ 44,909	$ 181,881	$ 44,909	$ 226,790
2008	0	0	190,437	36,354	190,437	36,354	226,791
2009	0	0	199,586	27,205	199,586	27,205	226,791
2010	0	0	209,077	17,714	209,077	17,714	226,791
2011	0	0	219,019	7,772	219,019	7,772	226,791
	$ 0	$ 0	$ 1,000,000	$ 133,954	$ 1,000,000	$ 133,954	$ 1,133,954

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:

2007	$ 42,709
2008	44,474
2009	33,681
2010	837
Total	$ 121,701

The estimated ERSIP liability is discounted at a rate of 5.0% and is $ 110,798 and $ 148,037 at June 30, 2006 and 2005, 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:

	2006	2005
Amount capitalized	$ 242,735	$ 242,735
Accumulated amortization	(132,490)	(97,062)
Net book value	$ 110,245	$ 145,673

Amortization expense of $ 35,428 for 2006 and 2005 is included with depreciation expense.

Note 8. Leases (Continued)

The future minimum lease payments under capital leases as of June 30, 2006 are as follows:

2007	$ 53,530
2008	28,511
2009	3,699
	85,740
Amount representing interest	(3,554)
	$ 82,186

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:

2007	$ 2,998,649
2008	2,450,251
2009	2,202,702
2010	2,154,761
2011	2,172,559
2012-2016	6,489,152
2017-2021	227,529
Total minimum lease payments	$ 18,695,603

The College has entered into operating leases for the Lancaster campus facilities which contain options for the College to purchase no sooner than 2009. Minimum lease payments in future years are as follows:

2007	$ 4,091,217
2008	4,094,374
2009	4,094,374
2010	4,094,374
2011	4,094,374
2012-2016	20,471,871
2017-2021	20,350,522
2022-2026	10,584,987
Total minimum lease payments	$ 71,876,093

The total rent under operating leases for the years ended June 30, 2006 and 2005 was $ 7,476,783 and $ 5,740,601, 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, 2006	
2002 - 2003	$ 62,539	$ 62,539	$ 0
2004 - 2005	80,856	80,856	0
2005 - 2006	43,474	43,474	0
	$ 186,869	$ 186,869	$ 0
		June 30, 2005	
2004 - 2005	$ 161,712	$ 161,712	$ 0

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, 2006 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2006	2005
Beginning balance	$ 98,746	$ 83,421
Claims made/Changes in estimates	432,819	410,310
Claims paid	(425,252)	(394,985)
Ending balance	$ 106,313	$ 98,746

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.

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, 2006 and 2005 was 2.35 and 2.12 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2006, 2005, and 2004, were \$ 64,092, \$ 52,463, and \$ 40,190, 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 1.90 percent for Class A, 2.37 percent for Class AA, 1.15 percent for Class A, and 1.43 percent for Class AA as of June 30, 2006 and 2005, respectively. The College's contributions to SERS for the years ended June 30, 2006, 2005, and 2004, were \$ 97,629, \$ 50,583, and \$ 14,776, 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, 2006, 2005, and 2004

Note 11. Pension Benefits (Continued)

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:

	2006	2005	2004
College	$3,338,738	$3,011,476	$2,732,328
Employees	3,279,084	2,957,869	2,660,022

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. 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, 2006, the College had commitments for the following projects:

	Total estimated costs	Total costs paid as of June 30, 2006
Health education pavilion	$ 8,125,667	$ 8,044,610
York	3,840,722	3,766,341
York Phase III	801,814	545,271
	$ 12,768,203	$ 12,356,221

Note 13. **State Appropriations**

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

	2006	2005
Included in non-operating revenue:		
Social security reimbursement	$ 2,067,237	$ 1,814,158
Tuition reimbursement	28,541,230	25,932,021
Sub-total	30,608,467	27,746,179
Included in capital appropriations:		
Debt reimbursement	3,135,295	1,946,463
Lease reimbursement	3,971,713	1,816,642
Sub-total	7,107,008	3,763,105
Total	$ 37,715,475	$ 31,509,284

Note 14. **Net Assets**

College:

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

	2006	2005
Capital assets, net	$ 82,312,857	$ 75,417,407
Bond issue costs, net	350,808	269,384
Bonds payable, net	(34,132,083)	(32,737,395)
Notes payable	(61,326)	(627,909)
Capital lease payable	(82,186)	(130,865)
Unspent bond proceeds	1,283,062	7,184,055
Total	$ 49,671,132	$ 49,374,677

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:

	2006	2005
Designated for endowment purposes	$ 704,945	$ 646,227
Undesignated	5,409,799	6,420,021
	$ 6,114,744	$ 7,066,248

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

	2006	2005
Provide support for future years' activities	$ 13,403,890	$ 10,288,082

Note 14. Net Assets (Continued)

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

	2006	2005
Scholarships and awards	$ 9,478,311	$ 9,098,775
Academic support	684,467	2,756,707
Other	412,689	528,408
	$ 10,575,467	$ 12,383,890

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
Years Ended June 30, 2006 and 2005

2006

FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	$ 34,757,274	$ 8,179,806	$ 3,346,672	$ 2,567,646	$ 0	$ 0	$ 267,743	$ 49,119,141
Research	450	36	0	0	0	0	0	486
Public Support	0	0	298,999	22,588	0	0	0	321,587
Academic Support	3,154,245	947,077	1,123,766	142,076	0	0	0	5,367,164
Student Services	6,255,781	1,922,943	361,257	470,531	0	0	0	9,010,512
Institutional Support	6,603,064	3,285,022	5,953,654	3,029,353	0	4,069,423	0	22,940,516
Operation and Maintenance of Plant	2,454,465	1,057,257	7,494,223	887,088	2,936,759	1,804,942	0	16,634,734
Student Aid	366,239	0	647	0	0	0	8,882,712	9,249,598
Auxiliary Enterprises	991,374	376,082	7,531,383	115,833	21,888	0	0	9,036,560
Total operating expenses	$ 54,582,892	$ 15,768,223	$ 26,110,601	$ 7,235,115	$ 2,958,647	$ 5,874,365	$ 9,150,455	$ 121,680,298
Interest expense								1,538,816
Total expenses								$ 123,219,114

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

HARRISBURG AREA COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

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	$ 290,721	$ 288,429
FWS Program	84.033	N/A	372,730	384,551
PELL Program	84.063	N/A	9,582,446	9,558,893
Perkins loan program	84.038	N/A	0	52,258
Total student financial aid			10,245,897	10,284,131
Passed through Pennsylvania Department of Education				
Adult Basic Education	84.002	N/A	39,005	43,261
Vocational Educational Grants Perkins III	84.048	N/A	528,078	487,454
Title III-E Tech Prep Education	84.243	N/A	233,054	305,285
Total passed through Pennsylvania department of education			800,137	836,000
Total Department of Education			11,046,034	11,120,131
Department of Labor:				
Passed through Pennsylvania Department of Corrections				
Culinary arts training prog. - Dept. of Corrections	16.579	N/A	22,881	6,710
Passed through Midtown Campus Technology & Trade Program				
Regional skills specialist services	17.260	N/A	0	300,000
Passed through South Central Employment Corporation				
Regional skills specialist services	17.260	N/A	189,898	167,546
Total Department of Labor			212,779	474,256
Department of Health and Human Services				
Passed through Pennsylvania Department of Public Welfare				
Job retention, advancement grant	93.558	N/A	24,391	15,015
Keystone education yields success (KEYS)	93.558	N/A	33,701	0
Total passed through Pennsylvania department of public welfare			58,092	15,015
Passed through Child Care Consultants, Inc.				
Keystone Stars Support (CCRD)	93.575	N/A	5,168	5,168
Passed through Pennsylvania Department of Community and Economic Development				
Child Care Challenge Grant	93.558	C000007283	500,000	141,408
Passed through South Central Employment Corporation				
Tuition based SPOC program	93.558	N/A	149,450	140,288
TANF Service Project Agreement (SEC)	93.558	N/A	0	14,519
H.E.A.P. Tuition Assistance for Dislocated Worker	93.558	N/A	0	9,913
HealthCare Academy (ISI)	93.558	N/A	134,504	169,817
Keystone education yields success (KEYS)	93.558	N/A	101,011	146,865
Total passed through south central employment corporation			384,965	481,402
Total Department of Health and Human Services			948,225	642,993
Corporation for National and Community Service				
Pennserve grant	94.007	N/A	2,716	2,716
Americorp grant	94.006	N/A	13,817	11,953
Total Corporation for National and Community Service			16,533	14,669
Total federal financial assistance			$ 12,223,571	$ 12,252,049

HARRISBURG AREA COMMUNITY COLLEGE

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, 2006 are identified below:

	CFDA Number	Disbursements	
Perkins Loan Program	84.038	$ 44,586	New Loans
		7,672	Expenses
		$ 52,258	
Federal Stafford and PLUS Loans	84.032	$ 32,471,152	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, 2006 was $ 223,127, 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, 2006, and have issued our report thereon dated October 4, 2006. 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 4, 2006.

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 4, 2006

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, 2006. 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, 2006.

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 4, 2006

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

I. Summary of Auditor's Results:

Financial Statements:

(i)	Type of auditor's report issued:	**Unqualified**	
(ii)	Internal control over financial reporting: Material weakness(es) identified?	____ yes	X no
	Reportable condition(s) identified not considered to be material weaknesses?	____ yes	X None reported
(iii)	Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards:

(iv)	Internal control over major programs: Material weakness(es) identified?	____ yes	X no
	Reportable condition(s) identified that are not considered to be material weaknesses?	____ yes	X None reported
(v)	Type of auditor's report issued on compliance for major programs**:**	**Unqualified**	
(vi)	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	____ yes	X no

(vii) Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
	Student Financial Aid:
84.007	FSEOG Program
84.063	PELL Program
84.033	FWS Program
84.638	Perkins Loan Program

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
(ix)	Auditee qualified as low-risk auditee?	X yes	____ no

Part II

Financial Statement Findings Section:

None

Federal Awards Findings Section:

None

HARRISBURG AREA COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2006

Reference Number	Finding

There were no findings for the year ended June 30, 2005.