

**HARRISBURG AREA
COMMUNITY COLLEGE**

**ANNUAL
FINANCIAL
REPORT**

JUNE 30, 2008

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HARRISBURG AREA COMMUNITY COLLEGE

LIST OF REPORT DISTRIBUTION

June 30, 2008

- 1 Report - Federal Audit Clearing House
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303 Walnut Street
Harrisburg, Pennsylvania 17101-1830
- 1 Report - State Public School Building Authority
P. O. Box 990
Camp Hill, PA 17001



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, 2008 and 2007, 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, 2008 and 2007, 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 15, 2008 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 4 to 11 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 15, 2008

**Harrisburg Area Community College
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2008, 2007, and 2006**

Introduction:

Management's discussion and analysis (MD&A) of Harrisburg Area Community College's (HACC) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. The purpose of the MD&A is to assist readers with understanding the accompanying financial statements by providing objective and understandable analysis of HACC's financial activities based on current known facts, decisions, and conditions. HACC management has prepared this analysis and is responsible for the completeness and fairness of the information contained within. This MD&A should be read in conjunction with the financial statements and notes that follow.

The College has prepared its financial statements in accordance with Government Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that the 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. This Management's Discussion and Analysis (MD&A) includes comments on each statement and focuses on the activities of the College (Primary Institution) only.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." Pursuant to the criteria set forth in GASB 39, it was determined that the HACC Foundation is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other College projects solely to HACC. The Foundation's financial statements for June 30, 2008 and 2007 are displayed in the financial statements section of the report and are not included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. George Franklin, Jr., Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

Financial Highlights:

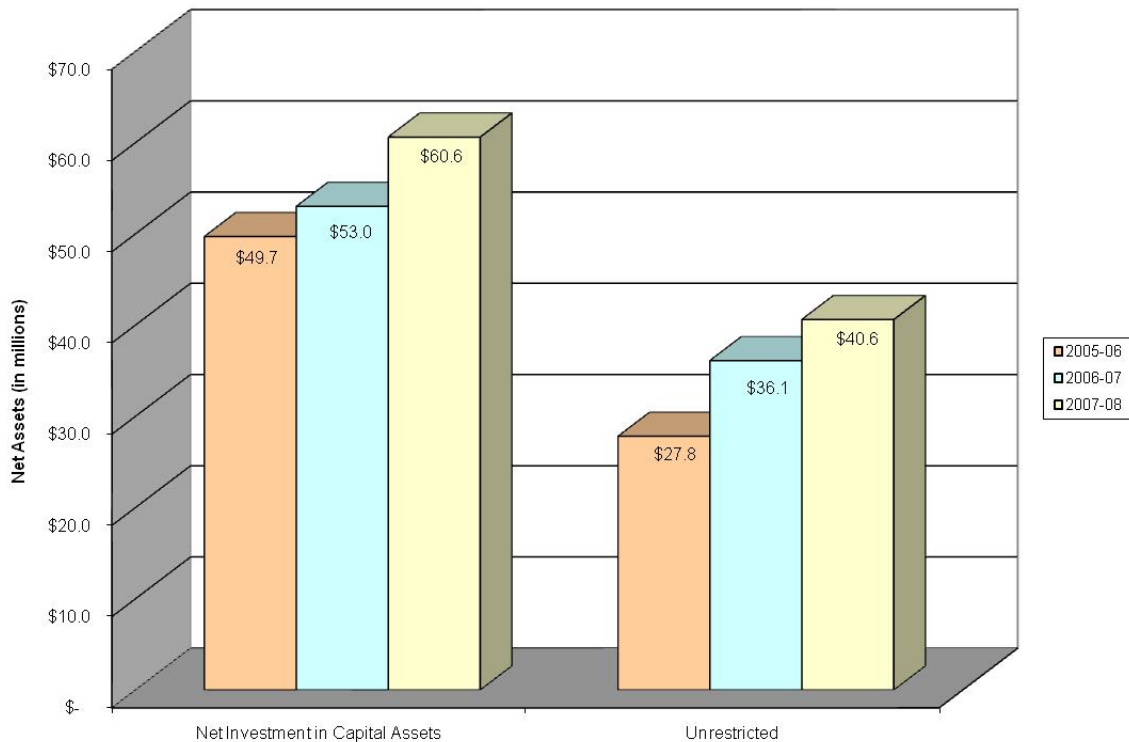
HACC's financial position continues to remain strong as of June 30, 2008. At June 30, 2008, HACC's assets of \$165.9 million exceeded its liabilities of \$64.7 million by \$101.2 million, an increase over the prior year of \$12.1 million. At June 30, 2007, assets of \$139.1 million exceeded liabilities of \$50.0 million by \$89.1 million, an increase over the prior year of \$11.6 million.

The 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, 2008, 2007, and 2006.

**Net Assets
(In millions)**

	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Invested in capital assets, net of related debt	\$60.6	\$53.0	\$7.6	\$49.7	\$3.3
Unrestricted	40.6	36.1	\$4.5	27.8	8.3
Total Net Assets	\$101.2	\$89.1	\$12.1	\$77.5	\$11.6

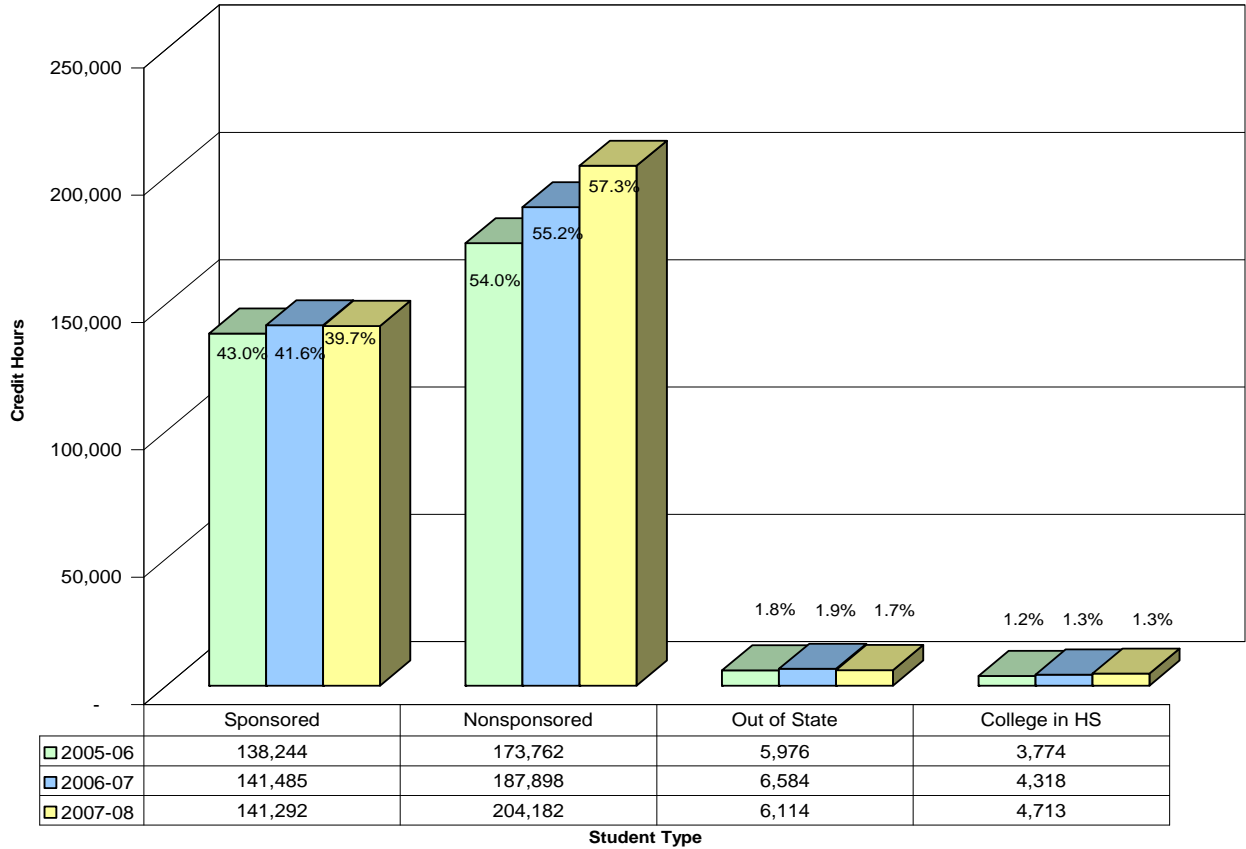
Comparison of Net Assets Fiscal Years 2006, 2007, 2008



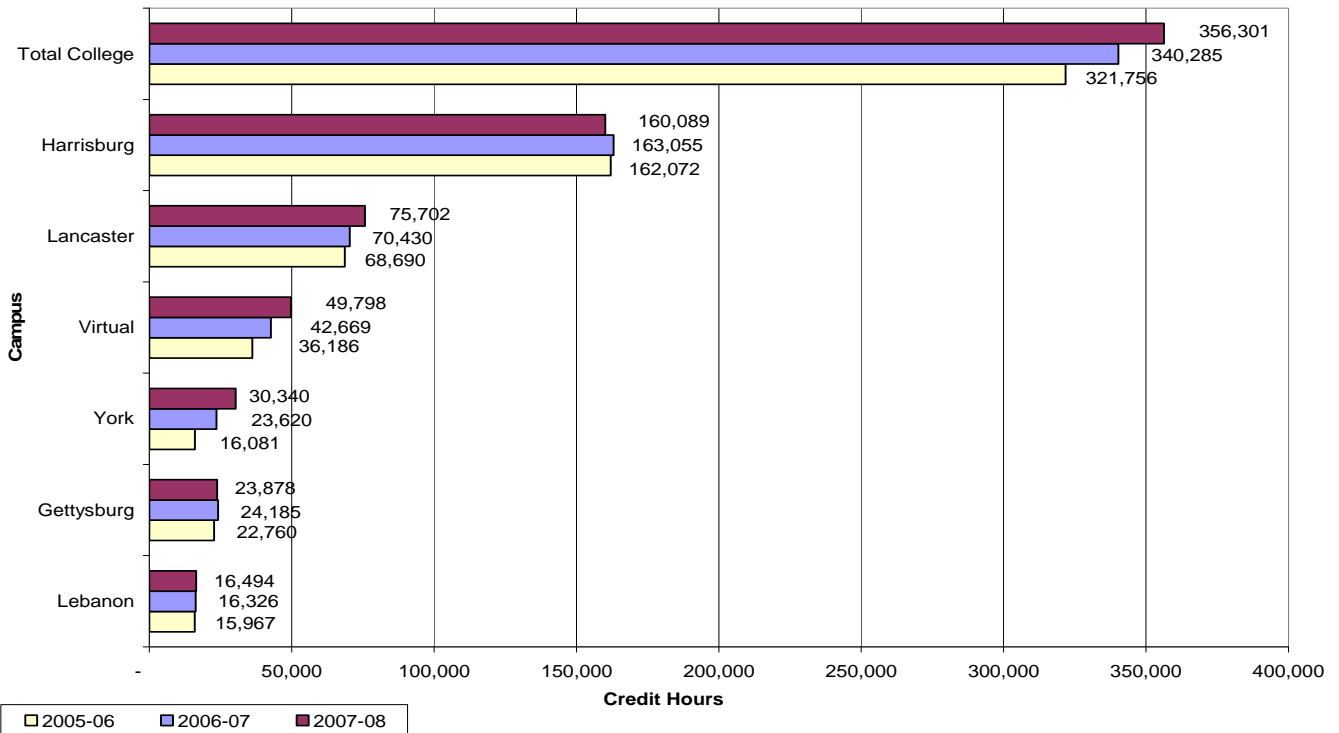
Credit hour enrollment increased at a 4.7% growth rate in 2008, while the 2007 rate was at 5.8%. Total credit hour production of 356,301 was 16,016 greater than from the 2007 credit hours of 340,285. In 2007 the growth was 18,529 credit hours higher than the 2006 credit hours of 321,756. The York, Lancaster, and Virtual Campuses experienced the most significant growth in 2008.

HACC's nonsponsored credit hour enrollments continue to exceed sponsored credit hours. Each year a greater percentage of the total credit hours produced have been comprised of nonsponsored students, which indicated the tremendous growth experienced at our regional campuses. In 2008, the 204,182 nonsponsored credit hours represent 57.3% of the total credit hours. This shows an increase from 187,988 credit hours or 55.2% of the total in 2007 and 173,762 credit hours or 54.0% from 2006. Each nonsponsored student pays 'two parts' tuition or \$166 per credit hour in 2008, where a sponsored student pays 'one part' tuition, or \$83.00 per credit hour and also receives local sponsoring school district support of \$80.50 per credit hour.

Credit Hour Production by Student Type



Credit Hour by Campus 2006, 2007, 2008



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 June 30, 2008 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution. It presents the end-of-the-year data for Current and Noncurrent Assets, Current and Noncurrent Liabilities, and Net Assets (Assets minus Liabilities). Over periods of time, increases and decreases in net assets may serve as a useful gauge of the College’s financial position. As the following chart illustrates, the College is in a strong financial position with net assets increasing over the past several years.

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

	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Assets					
Current Assets	\$70.8	\$56.4	\$14.4	\$48.1	\$8.3
Noncurrent Assets	95.1	82.7	\$12.4	82.5	0.2
Total Assets	165.9	139.1	\$26.8	130.6	8.5
Liabilities					
Current Liabilities	21.2	19.9	\$1.3	18.9	1.0
Noncurrent Liabilities	43.5	30.1	\$13.4	34.2	(4.1)
Total Liabilities	64.7	50.0	\$14.7	53.1	(3.1)
Net Assets					
Invested in Capital Assets, net of debt	60.6	53.0	\$7.6	49.7	3.3
Unrestricted	40.6	36.1	\$4.5	27.8	8.3
Total Net Assets	\$101.2	\$89.1	\$12.1	\$77.5	\$11.6

In 2008, current assets increased by \$14.4 million over 2007. Most of this increase, \$13.6 million, is in cash and cash equivalents and short term investments attributed to \$8.3 million of proceeds from the 2007 bond not yet spent; the movement of \$4.1 million of Select Medical/Pollock Capital Campaign funds from the HACC Foundation to the College; and from college-wide enrollment growth of 4.7% in conjunction with a 3.1% tuition increase in 2008. In addition, we saw a \$400,000 increase in Other Assets and a \$400,000 increase to bookstore inventory due to enrollment growth. The noncurrent assets increased by \$12.4 million in 2008 from the previous year. This increase is largely due to numerous capital assets from expansion and/or renovation projects at our Gettysburg, York, and Midtown 1 (previously called CCTA) facilities, and for the Midtown 2 teaching facility opened in July 2007.

Current liabilities for 2008 increased \$1.3 million primarily in Accounts Payable and Accrued Expenses due to the overall growth of the college. Noncurrent liabilities for 2008 reflect a \$13.4 million increase. Of this total, \$12.7 million is the net increase in Bonds Payable associated with the issue of 2007 bond to purchase and renovate the Gettysburg Campus. The remaining \$700,000 is the increase to accrued vacation and sick leave reserves resulting from a combination of increased number of personnel and the annual salary adjustment.

Net assets increased to \$101.2 million as of June 30, 2008. The largest portion of these net assets (\$60.6 million) 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 capital assets themselves cannot be used to liquidate these liabilities. The balance is unrestricted net assets (\$40.6 million) which is available to use for any lawful purpose of the College.

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.

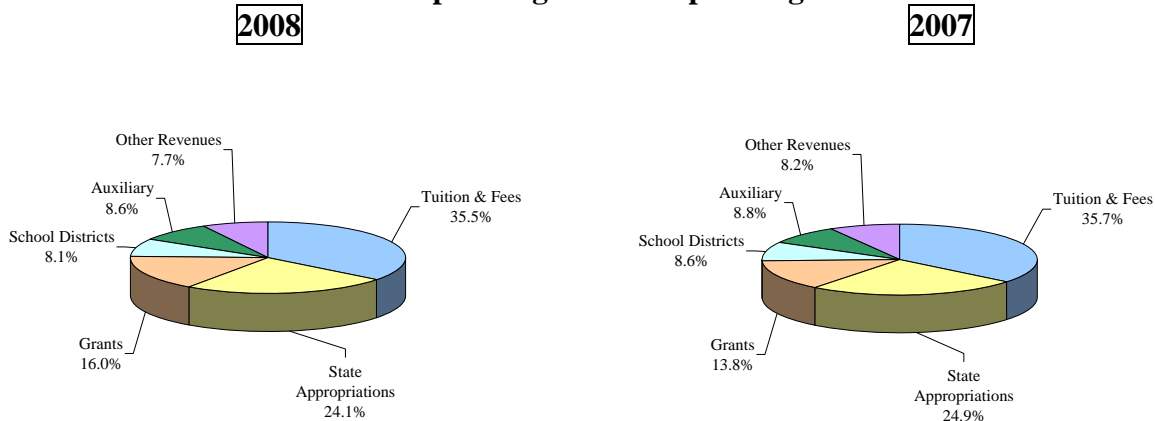
Operating revenues are those received by the College for directly providing goods and services. Nonoperating revenues are those that exclude a direct exchange of goods and services. State and school district appropriations are classified as nonoperating revenues since these governmental agencies do not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

The following is a summarized version of the College’s revenues, expenses, and changes in net assets for years ended June 30, 2008, 2007, and 2006 as well as graphical representations of revenues and expenses by category.

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

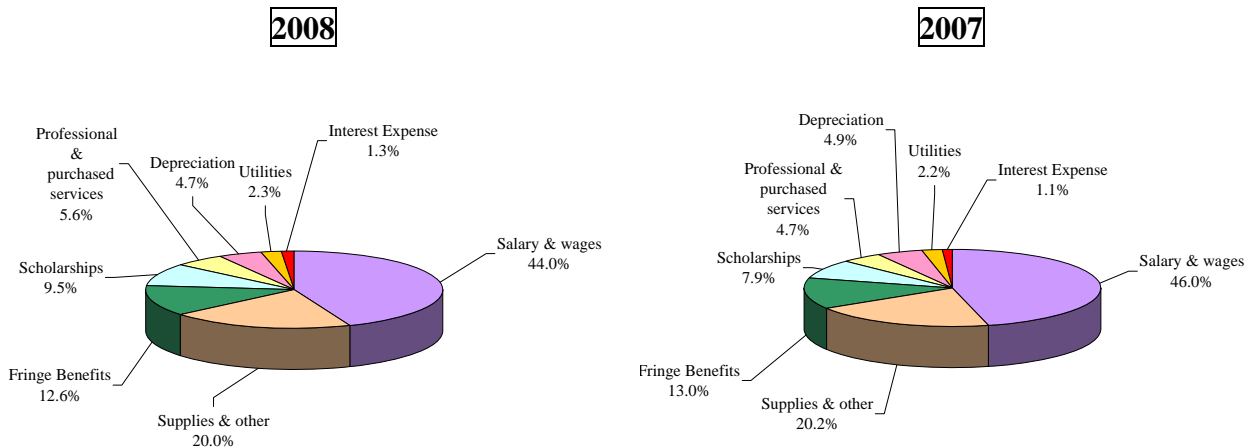
	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007 - 2006
Operating Revenues	\$93.1	\$82.0	\$11.1	\$76.8	\$5.2
Operating Expenses	143.2	126.5	16.7	121.7	4.8
Operating Income (Loss)	(50.1)	(44.5)	(5.6)	(44.9)	0.4
Nonoperating Revenues (Net)	47.5	46.0	1.5	43.0	3.0
Net Income (Loss) Before Capital Contributions	(2.6)	1.5	(4.1)	(1.9)	3.4
Capital Contributions	14.7	10.0	4.7	9.1	0.9
Increase (Decrease) in Net Assets	\$12.1	\$11.5	\$0.6	\$7.2	\$4.3

Total Operating and Nonoperating Revenue

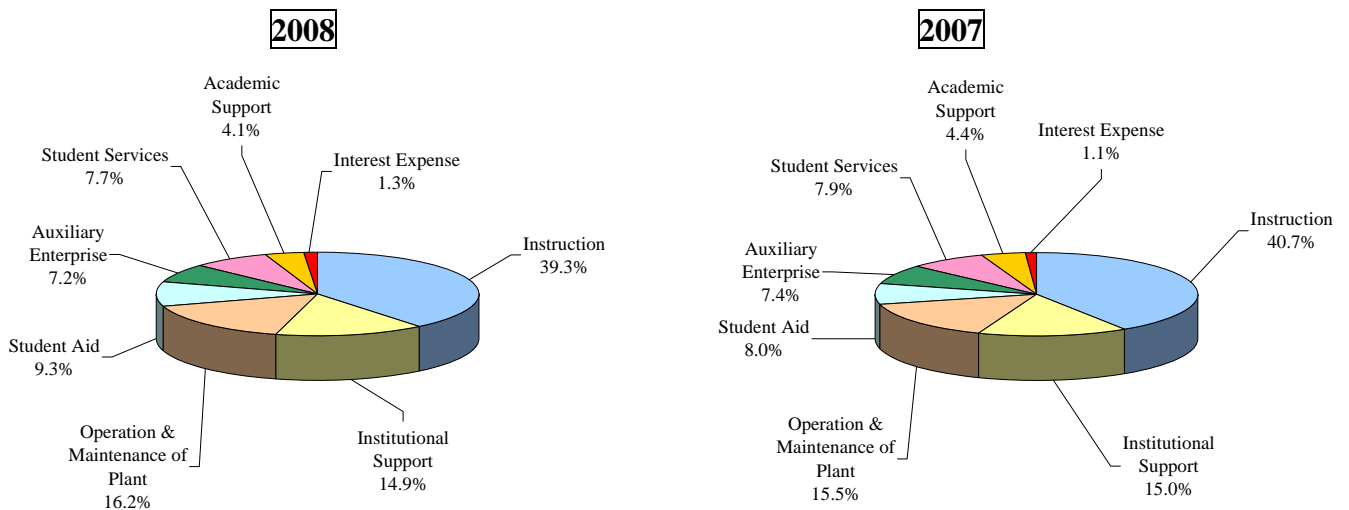


Operating revenues of \$93.1 million in 2008 were \$11.1 million greater than 2007. Total operating revenues in 2007 were \$82.0 million, which was an increase of \$5.2 million over 2006. There are two major drivers of the 2008 increase. The first is \$4.6 million of revenue generated by enrollment growth and increased tuition per credit hour to \$83.00 in 2008 versus \$80.50 in 2007. The second is a \$4.8 million increase in federal, state and local grants, most of which is financial aid funding for our students. The balance of the growth in operating revenues is associated with auxiliary service sales, primarily from our bookstore operations, and Other operating revenue.

Total Operating Expenditures by Natural Source



Total Operating Expenditures by Function



The other side of the enrollment growth is shown in the \$16.7 million increase in operating expense in 2008. The largest portion of this increase (\$6.6 million) is in salary and benefits which resulted from a 4.0% salary increase in 2008, new staffing in areas of growth, and the implementation of the new decision based classification and compensation system. Other increases in the 2008 operating expense included \$5.3 million for supplies, professional and purchases services, and \$3.6 million in scholarships.

Non-operating revenues saw an overall increase of \$500,000. The state operating appropriation increased \$2.1 million, a combination of the State's 3% increase to their 2008 total appropriation and the College's enrollment growth. Local revenue saw a small increase of \$300,000, again indicating the largest student growth is in non-sponsored students at our regional campuses. Also, there was a net decrease of \$800,000 from a drop in investment income as interest rates fell during the year and the increase in Interest on capital assets related to debt for first time interest payments on 2007 bonds issued to purchase and renovate our Gettysburg facility.

The total capital contributions for fiscal year 2008 amounted to \$14.7 million, which is an increase of \$4.7 million over the previous year. The largest increase here is \$4.1 million in capital grants/gifts due to the recognition and transfer of the Select Medical/Pollock Capital Campaign funds from the HACC Foundation to the College. These funds are restricted to pay 50% of the future debt service on these buildings funded within the College's 2004 bond issue. A smaller increase here is an additional \$600,000 in the State capital appropriation representing the State's contribution of 50% of the 2007 bond's debt service payments.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect yet another positive year. Continued enrollment growth and expansion generated both additional revenue and expense. At year end, there was an increase in net assets of \$12.1 million, which is \$600,000 more than the \$11.5 million increase in 2007.

Statement of Cash Flows:

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents information about the cash activity of the College identifying the major sources and uses of cash during the year. The following summary shows the College's liquidity remained strong, and as of June 30, 2008, had increased by \$17.8 million compared to the prior year. The following is a summary of the statement of cash flows for the years ended June 30, 2008, 2007, and 2006.

	Cash Flows (In millions)				
	2008	2007	Increase (Decrease) 2008-2007	2006	Increase (Decrease) 2007-2006
Cash Provided (Used) By:					
Operating Activities	(\$43.5)	(\$37.2)	(\$6.3)	(\$38.3)	\$1.1
Noncapital Financing Activities	48.9	43.9	5.0	44.7	(0.8)
Capital Financing Activities	6.0	(2.2)	8.2	(7.2)	5.0
Investing Activities	6.4	(2.5)	8.9	4.2	(6.7)
Net Increase in Cash and Cash Equivalents	17.8	2.0	15.8	3.4	(1.4)
Cash and Cash Equivalents - Beginning of Year	29.6	27.6	2.0	24.2	3.4
Cash and Cash Equivalents - End of Year	\$47.4	\$29.6	\$17.8	\$27.6	\$2.0

Capital Plan:

The College continued to undertake projects identified in the Facility Master Plan, during the course of fiscal year 2008. In addition to the management of existing facilities, the strategic plan will assist the College in determining the direction best suited to support the continued growth and expansion. This will enable the College to prudently allocate the capital resources and better determine when capital financing is required. Capital projects planned and/or being considered, based upon funding availability, for 2009 include completion of Phase II renovations of the Gettysburg Campus facility, Phase II

renovations at Midtown 1 (previously called CCTA), upgrade of telecommunication system, installation of an internal PA system, purchase, renovation and outfitting additional facilities for the expansion of the York Campus, and a major renovation of Whitaker Hall (Harrisburg Campus) to include upgrades to building insulation, electrical, and HVAC systems.

Capital Asset and Debt Administration:

During the year ended June 30, 2008, the College had total capital additions of approximately \$19.2 million. This activity included various College Facility Master Plan projects including Blocker Hall electrical and roof renovations, Harrisburg Campus wayfinding signage, renovations to the Harrisburg Campus College Service Center, Harrisburg Campus Bookstore, Harrisburg Campus Rose Lehrman Arts Center, and Lebanon Campus. Fiscal year 2008 also saw acquisition of instructional and other equipment, purchase of a small property adjacent to the Lancaster Campus, continuation of the 5-year plan to replace outdated furniture on the Harrisburg Campus, Phase II outfitting of additional space at Midtown 2, and the purchase and renovation of the Gettysburg Campus facility.

The College has several outstanding debt instruments which were issued to finance various construction projects and other improvements. These debts, including payment schedules, are fully disclosed in greater detail within Notes 7 and 8 of the financial statements. In fiscal year 2008, final negotiations occurred to purchase and fund the expansion and renovation of the Gettysburg Campus. An \$18.0 million bond was issued through Fulton Bank to finance this endeavor. The College also took a \$1.6 short term revolving loan through The State Public School Building Authority (SPSBA) to fund Phase I renovations at the Midtown 1 (CCTA) location.

Economic Factors That Will Affect the Future:

The economic position of the College is closely tied to the economy and the State's budget. Downturns in the economy, higher unemployment rates in Central Pennsylvania, increasing high school graduating yield rates, the College's ongoing expansion into new markets, and retention efforts have all resulted in continued enrollment growth. The purchase and expansion of the Gettysburg Campus, expansion of the York Campus, increased offerings by the Virtual Campus, and a second building at the Midtown location to grow existing and offer new technology programs, will continue to stimulate future enrollment growth.

State funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. However, the College continues to sustain continued growth through the pursuit of alternative sources of revenue, including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals, and state agencies to meet our ongoing mission to provide low cost education to all who seek it. HACC's enrollment growth in conjunction with community partnerships to meet the growing demands of our customers provides ample opportunities for our continued expansion. The College continues to be innovative by offering new programs to our students.

Overall, the College's current financial position is very strong, as is evident by the 2008 financial statements, and will continue to grow and expand while efficiently managing available resources in a prudent manner.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2008	2007	2008	2007
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 41,748,641	\$ 29,611,949	\$ 472,463	\$ 3,917,560
Short-term investments	15,636,896	14,210,771	1,137,489	935,252
Accounts receivable, net	8,049,209	8,002,749	3,352,597	3,033,531
Loans receivable - current portion	62,880	71,040	0	0
Other assets	2,822,167	2,400,365	2,404	0
Inventories	2,263,250	1,917,289	0	0
Due from HACC Foundation	249,603	173,409	0	0
Total Current Assets	70,832,646	56,387,572	4,964,953	7,886,343
Noncurrent Assets				
Long-term investments	0	0	23,678,262	26,536,883
Loans receivable - long term portion	220,039	202,822	0	0
Capital assets, net of accumulated depreciation	94,860,130	82,468,537	0	0
Total Noncurrent Assets	95,080,169	82,671,359	23,678,262	26,536,883
Total Assets	\$ 165,912,815	\$ 139,058,931	\$ 28,643,215	\$ 34,423,226
LIABILITIES				
Current Liabilities				
Due to HACC	\$ 0	\$ 0	\$ 249,603	\$ 173,409
Accounts payable and accrued expenses	13,867,002	12,756,808	0	0
Deposits held in custody for others	782,112	772,568	0	0
Unearned revenue	2,040,513	1,738,146	46,125	7,650
Current portion of long term liabilities	4,513,978	4,618,293	100,000	100,000
Total Current Liabilities	21,203,605	19,885,815	395,728	281,059
Noncurrent Liabilities				
Long-term liabilities	43,524,712	30,105,657	402,312	502,313
Total Noncurrent Liabilities	43,524,712	30,105,657	402,312	502,313
Total Liabilities	64,728,317	49,991,472	798,040	783,372
NET ASSETS				
Invested in capital assets, net of related debt	60,590,613	53,032,829	0	0
Restricted - nonexpendable	0	0	11,946,989	11,744,665
Restricted - expendable	0	0	11,382,980	15,851,454
Unrestricted	40,593,885	36,034,630	4,515,206	6,043,735
Total Net Assets	101,184,498	89,067,459	27,845,175	33,639,854
Total Liabilities and Net Assets	\$ 165,912,815	\$ 139,058,931	\$ 28,643,215	\$ 34,423,226

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, 2008 and 2007

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2008	2007	2008	2007
REVENUES				
Operating Revenues				
Student tuition and fees	\$ 55,903,544	\$ 51,638,340	\$ 0	\$ 0
Scholarship allowance and discounts	(5,206,329)	(5,569,093)	0	0
Federal grants	16,591,396	12,587,229	0	0
State and local grants	5,642,138	4,843,196	0	0
Nongovernmental grants	575,941	370,051	0	0
Sales and services of auxiliary enterprises	12,188,267	11,355,456	0	0
Other operating revenues	7,363,898	6,809,529	0	0
Contributions	0	0	2,999,849	3,092,628
Investment income, net of investment expenses of \$155,781 - 2008 and \$152,823 - 2007	0	0	873,418	816,397
Realized and unrealized gains (losses) on investments	0	0	(1,615,043)	3,171,126
Support fee	0	0	351,395	0
Total Operating Revenues	<u>93,058,855</u>	<u>82,034,708</u>	<u>2,609,619</u>	<u>7,080,151</u>
EXPENSES				
Operating Expenses				
Salaries and wages	63,868,760	58,869,845	266,172	197,886
Fringe benefits and payroll taxes	18,283,416	16,647,730	102,261	61,260
Supplies and other expense	28,876,055	25,757,483	4,983,735	160,027
Professional and purchased services	8,125,324	5,971,336	319,111	94,371
Utilities	3,373,335	2,845,403	0	0
Depreciation and amortization	6,855,830	6,283,799	0	0
Scholarships	13,797,493	10,162,329	941,574	858,321
Contributions and grants	0	0	1,791,445	2,162,533
Total Operating Expenses	<u>143,180,213</u>	<u>126,537,925</u>	<u>8,404,298</u>	<u>3,534,398</u>
Operating Income (Loss)	<u>(50,121,358)</u>	<u>(44,503,217)</u>	<u>(5,794,679)</u>	<u>3,545,753</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	34,382,495	32,287,382	0	0
Local appropriations	11,488,603	11,185,297	0	0
Gifts	1,676,139	1,771,266	0	0
Gain on sale of assets	2,185	2,500	0	0
Investment income, net of investment expenses of \$6,859 - 2008 and \$19,915 - 2007	1,886,053	2,148,037	0	0
Interest expense	(1,915,929)	(1,408,824)	0	0
Total Non-Operating Revenues, net	<u>47,519,546</u>	<u>45,985,658</u>	<u>0</u>	<u>0</u>
Net Income Before Capital Contributions	<u>(2,601,812)</u>	<u>1,482,441</u>	<u>(5,794,679)</u>	<u>3,545,753</u>
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	200,000	200,000	0	0
Capital appropriations - state sources	8,123,289	7,499,151	0	0
Capital grants and gifts	6,395,562	2,353,644	0	0
Total Capital Contributions	<u>14,718,851</u>	<u>10,052,795</u>	<u>0</u>	<u>0</u>
Increase (decrease) in Net Assets	12,117,039	11,535,236	(5,794,679)	3,545,753
Net Assets - Beginning of Year	<u>89,067,459</u>	<u>77,532,223</u>	<u>33,639,854</u>	<u>30,094,101</u>
Net Assets - End of Year	<u>\$ 101,184,498</u>	<u>\$ 89,067,459</u>	<u>\$ 27,845,175</u>	<u>\$ 33,639,854</u>

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments received for tuition and fees	\$ 50,720,359	\$ 45,737,159	\$ 0	\$ 0
Payments received from grants and contracts	22,707,610	18,136,668	0	0
Payments received from auxiliary enterprise charges	11,643,423	11,200,480	0	0
Payments received from other revenues	7,345,749	7,309,714	0	0
Payments received from donors (temporary and unrestricted)	0	0	1,646,526	1,372,075
Payments received from investment activities	0	0	496,131	432,440
Payments to and on behalf of employees	(81,116,716)	(74,776,378)	(368,433)	(259,146)
Payments to suppliers for goods and services	(40,795,476)	(34,626,274)	(559,708)	(200,361)
Payments for interest	0	0	(32,782)	(38,668)
Payments for contributions and grants	0	0	(6,026,029)	(2,121,171)
Payments for financial aid and scholarships	(13,853,481)	(10,162,776)	(992,176)	(895,942)
Net cash (used) by operating activities	<u>(43,348,532)</u>	<u>(37,181,407)</u>	<u>(5,836,471)</u>	<u>(1,710,773)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	35,156,358	32,198,853	0	0
Local appropriations	12,049,977	9,902,027	0	0
Gifts received	1,699,887	1,784,690	0	0
Collection of contributions restricted for long-term purposes	0	0	1,065,993	1,117,245
Collection of investment income restricted for long-term purposes	0	0	384,041	426,293
Proceeds from borrowing	0	0	0	0
Cash provided by financing activities	<u>0</u>	<u>0</u>	<u>(100,001)</u>	<u>(100,000)</u>
Net cash provided by noncapital financing activities	<u>48,906,222</u>	<u>43,885,570</u>	<u>1,350,033</u>	<u>1,443,538</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Capital debt financing	18,184,753	938,674	0	0
State and local appropriations	8,305,590	7,717,534	0	0
Capital grants and gifts received	6,340,086	2,198,382	0	0
Purchases of capital assets	(19,819,573)	(6,373,215)	0	0
Proceeds from sale of capital assets	0	2,500	0	0
Principal paid on debt and capital leases	(5,311,019)	(5,215,782)	0	0
Interest paid on debt and capital leases	(1,811,335)	(1,420,247)	0	0
Net cash provided (used) by capital financing activities	<u>5,888,501</u>	<u>(2,152,154)</u>	<u>0</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(27,980,000)	(25,450,000)	(8,686,085)	(7,952,183)
Proceeds from sale/maturities of investments	32,203,227	20,935,950	9,727,426	9,300,639
Investment income	2,138,442	1,968,510	0	0
Net cash provided (used) by investing activities	<u>6,361,669</u>	<u>(2,545,540)</u>	<u>1,041,341</u>	<u>1,348,456</u>
Increase in cash and cash equivalents	17,807,860	2,006,469	(3,445,097)	1,081,221
Cash and Cash equivalents - Beginning of Year	29,611,949	27,605,480	3,917,560	2,836,339
Reclassification of cash equivalent to short term investment	(5,617,168)	0	0	0
Cash and Cash equivalents - End of Year	<u>\$ 41,802,641</u>	<u>\$ 29,611,949</u>	<u>\$ 472,463</u>	<u>\$ 3,917,560</u>

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, 2008 and 2007

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2008	2007	2008	2007
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	(\$ 50,121,358)	(\$ 44,503,217)	(\$ 5,794,679)	\$ 3,545,753
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Depreciation and amortization expense	6,855,830	6,283,799	0	0
Gain on disposal of capital assets	15,710	3,524	0	0
Realized and unrealized (gain) loss on investments	0	0	1,615,043	(3,118,568)
Contributions restricted for long-term investment	0	0	(1,065,993)	(1,117,245)
Contributions of investment income restricted for long-term purposes	0	0	(384,041)	(426,293)
(Increase) Decrease in:				
Accounts receivable	(861,765)	284,092	(319,066)	(619,769)
Inventory	(345,961)	53,079	0	0
Other assets	(456,961)	(1,189,305)	(2,404)	0
Increase (Decrease) in:				
Unearned revenue	0	0	38,475	6,150
Accounts payable and accrued expense	1,556,429	1,734,608	76,194	19,199
Deposits	9,544	152,013	0	0
Net cash (used) by operating activities	<u>(\$ 43,348,532)</u>	<u>(\$ 37,181,407)</u>	<u>(\$ 5,836,471)</u>	<u>(\$ 1,710,773)</u>
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS				
Capital gifts of equipment and buildings	\$ 55,476	\$ 155,262	\$ 0	\$ 0
Realized and unrealized gains (losses) on investments	(\$ 21,817)	\$ 1,342	(\$ 1,615,043)	\$ 3,171,126

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 scholarships, 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, and restricted net assets – nonexpendable is the same classification as permanently 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 (however, see Note 3 for reclassification at June 30, 2008 for 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, 2008 and 2007. 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 collectability 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.

Impact of Recently Issued Accounting Pronouncements on Post Employment Retirement Benefits

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent, with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. The College will be required to implement Statement No. 45 in fiscal year ending June 30, 2008. The College anticipates that implementation of Statement No. 45 will result in additional expenses and liabilities being recorded in the government-wide financial statements.

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 written policy for custodial credit risk. As of June 30, 2008, \$ 40,941,366 of the College's bank balance of \$ 41,552,995 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		<u>40,941,366</u>
	\$	<u>40,941,366</u>

Included in investments on the statement of net assets are CD's invested in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 4,520,000, Fulton Bank of \$ 3,000,000, and Centric Bank of \$ 2,000,000, all with maturities of greater than three months. These are considered deposits for purposes of this disclosure.

Note 3. Investments

Credit Risk

Included on the statement of net assets are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 10,420,612 (classified as cash equivalents) and the Commonfund – Short-term fund (classified as short term investment – See *) of \$ 5,671,168. 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, 2008, 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, 2008, the College's investment of \$ 445,728 in the Commonfund – Intermediate Term Fund was rated AA+ 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, 2008, 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
Commonfund - Short Term Fund	* Effective Duration 3.1 months as of June 30, 2008	\$ 5,671,168
Commonfund - Intermediate Term Fund	Effective Duration 1.9 years	445,728

Note 3. Investments (Continued)***Market Risk***

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

In addition, recent economic uncertainty and market events have led to unprecedented volatility in currency, commodity, credit and equity markets culminating in failures of some banking and financial services firms and Government intervention to solidify others. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the College's investments.

* Due to recent economic events, the liquidity of the College's investment in the short term common fund has been impacted. It is currently estimated that approximately 45 – 50% of this fund will be available by October 31, 2008. As a result, this fund has been reclassified from cash equivalents to short term investments at June 30, 2008.

Investments of the HACC Foundation as of June 30, 2008 and 2007 are comprised of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
2008			
Money market funds	\$ 1,137,489	\$ 1,137,489	\$ 0
Equities	11,245,177	11,715,074	469,897
Mutual funds	8,834,928	9,159,150	324,222
Government obligations	1,943,676	1,990,526	46,850
Corporate bonds	845,817	813,512	(32,305)
	<u>\$ 24,007,087</u>	<u>\$ 24,815,751</u>	<u>\$ 808,664</u>
2007			
Money market funds	\$ 935,252	\$ 935,252	\$ 0
Equities	11,254,106	13,474,140	2,220,034
Mutual funds	8,959,932	9,734,349	774,417
Government obligations	2,507,772	2,445,897	(61,875)
Corporate bonds	925,598	882,497	(43,101)
	<u>\$ 24,582,660</u>	<u>\$ 27,472,135</u>	<u>\$ 2,889,475</u>

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	College		HACC Foundation	
	2008	2007	2008	2007
Student Tuition and fees	\$ 5,129,923	\$ 5,629,380	\$ 0	\$ 0
Allowance for doubtful accounts	(700,000)	(620,000)	0	0
Grants and contracts receivable	1,116,149	1,072,512	0	0
State appropriations receivable	0	6,614	0	0
Bookstore receivables	1,553,420	1,006,526	0	0
Other receivables	949,717	907,717	86,953	93,707
Pledges receivables (net)	0	0	3,111,169	2,794,663
Charitable remainder annuity trust held by outside party	0	0	154,475	145,161
Total	\$ 8,049,209	\$ 8,002,749	\$ 3,352,597	\$ 3,033,531

Bookstore receivables include \$ 1,526,671 and \$ 991,449 in vendor credit memos at June 30, 2008 and 2007, 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 3.5% at June 30, 2008 and 4.9% at June 30, 2007. The unamortized discount was \$ 118,121 and \$ 465,709 at June 30, 2008 and 2007, respectively.

Note 5. Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2008 and 2007:

	2008			
	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Cost:				
Land	\$ 1,639,470	\$ 255,552	\$ 0	\$ 1,895,022
Building	63,723,925	9,899,293	0	73,623,218
Improvements - land	1,431,308	109,066	0	1,540,374
Improvements - building	20,952,959	2,294,482	0	23,247,441
Improvements - leasehold	9,711,616	398,512	0	10,110,128
Instructional equipment	25,585,692	2,346,472	(15,658)	27,916,506
Non-instructional equipment	11,529,819	2,171,155	(155,543)	13,545,431
Construction in process	461,335	2,228,906	(461,335)	2,228,906
Total cost	135,036,124	19,703,438	(632,536)	154,107,026
Less accumulated depreciation:				
Building	(21,790,126)	(1,737,666)	0	(23,527,792)
Improvements - land	(341,760)	(75,999)	0	(417,759)
Improvements - building	(7,359,413)	(1,128,208)	0	(8,487,621)
Improvements - leasehold	(1,324,143)	(494,878)	0	(1,819,021)
Instructional equipment	(11,182,809)	(1,633,935)	13,375	(12,803,369)
Non-instructional equipment	(10,569,336)	(1,764,116)	142,118	(12,191,334)
Total accumulated depreciation	(52,567,587)	(6,834,802)	155,493	(59,246,896)
Capital assets, net	\$ 82,468,537	\$ 12,868,636	(\$ 477,043)	\$ 94,860,130

Note 5. Capital Assets (Continued)

	2007			
	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Cost:				
Land	\$ 1,639,470	\$ 0	\$ 0	\$ 1,639,470
Building	63,692,834	31,091	0	63,723,925
Improvements - land	1,354,819	76,489	0	1,431,308
Improvements - building	18,999,830	1,953,129	0	20,952,959
Improvements - leasehold	9,225,918	485,698	0	9,711,616
Instructional equipment	23,767,521	1,818,171	0	25,585,692
Non-instructional equipment	9,956,985	1,596,034	(23,200)	11,529,819
Construction in process	0	461,335	0	461,335
Total cost	<u>128,637,377</u>	<u>6,421,947</u>	<u>(23,200)</u>	<u>135,036,124</u>
Less accumulated depreciation:				
Building	(20,235,543)	(1,554,583)	0	(21,790,126)
Improvements - land	(270,862)	(70,898)	0	(341,760)
Improvements - building	(6,321,716)	(1,037,697)	0	(7,359,413)
Improvements - leasehold	(857,913)	(466,230)	0	(1,324,143)
Instructional equipment	(9,760,342)	(1,422,467)	0	(11,182,809)
Non-instructional equipment	(8,878,144)	(1,710,868)	19,676	(10,569,336)
Total accumulated depreciation	<u>(46,324,520)</u>	<u>(6,262,743)</u>	<u>19,676</u>	<u>(52,567,587)</u>
Capital assets, net	<u>\$ 82,312,857</u>	<u>\$ 159,204</u>	<u>(\$ 3,524)</u>	<u>\$ 82,468,537</u>

Note 6. Other Assets

Other assets of the College at June 30 consist of:

	2008	2007
Prepaid expenses	\$ 2,458,233	\$ 2,076,009
Bond issue costs	655,268	586,212
Accumulated amortization - bond issue costs	(291,334)	(261,856)
	<u>\$ 2,822,167</u>	<u>\$ 2,400,365</u>

Note 7. Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2008 and 2007:

2008						
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	\$ 31,404	\$ 0	(\$ 27,773)	\$ 3,631	\$ 3,631	\$ 0
Bonds and notes payable:						
Series of 1995 D	4,810,000	0	(1,865,000)	2,945,000	1,100,000	1,845,000
Series of 2004	20,765,000	0	(1,975,000)	18,790,000	2,030,000	16,760,000
Series of 2005	4,480,000	0	(495,000)	3,985,000	515,000	3,470,000
Series of 2007	0	18,020,000	(780,000)	17,240,000	505,000	16,735,000
Revolving Loan	0	233,809	(168,246)	65,563	65,563	0
Bond premium	45,729	0	(2,686)	43,043	2,686	40,357
Bond discount	(22,606)	0	1,255	(21,351)	(1,265)	(20,086)
Loss on refinancing	(106,236)	0	6,235	(100,001)	(6,235)	(93,766)
Total leases and bonds/notes payable	<u>30,003,291</u>	<u>18,253,809</u>	<u>(5,306,215)</u>	<u>42,950,885</u>	<u>4,214,380</u>	<u>38,736,505</u>
Other liabilities:						
Compensated absences:						
Vacation leave	2,411,969	491,356	(207,459)	2,695,866	182,497	2,513,369
Sick leave	2,235,061	193,417	(69,375)	2,359,103	85,062	2,274,041
Early retirement payable	73,629	0	(40,793)	32,836	32,039	797
Total other liabilities	<u>4,720,659</u>	<u>684,773</u>	<u>(317,627)</u>	<u>5,087,805</u>	<u>299,598</u>	<u>4,788,207</u>
Total long-term liabilities	<u>\$ 34,723,950</u>	<u>\$ 18,938,582</u>	<u>(\$ 5,623,842)</u>	<u>\$ 48,038,690</u>	<u>\$ 4,513,978</u>	<u>\$ 43,524,712</u>
2007						
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	\$ 82,186	\$ 0	(\$ 50,782)	\$ 31,404	\$ 27,772	\$ 3,632
Bonds and notes payable:						
Series of 1995 D	6,570,000	0	(1,760,000)	4,810,000	1,865,000	2,945,000
Series of 2004	22,685,000	0	(1,920,000)	20,765,000	1,975,000	18,790,000
Series of 2005	4,965,000	0	(485,000)	4,480,000	495,000	3,985,000
Note payable - 2006	61,326	938,674	(1,000,000)	0	0	0
Bond premium	48,415	0	(2,686)	45,729	2,686	43,043
Bond discount	(23,861)	0	1,255	(22,606)	(1,256)	(21,350)
Loss on refinancing	(112,471)	0	6,235	(106,236)	(6,235)	(100,001)
Total leases and bonds/notes payable	<u>34,275,595</u>	<u>938,674</u>	<u>(5,210,978)</u>	<u>30,003,291</u>	<u>4,357,967</u>	<u>25,645,324</u>
Other liabilities:						
Compensated absences:						
Vacation leave	2,138,902	384,944	(111,877)	2,411,969	138,199	2,273,770
Sick leave	2,262,107	65,716	(92,762)	2,235,061	89,291	2,145,770
Early retirement payable	110,798	0	(37,169)	73,629	32,836	40,793
Total other liabilities	<u>4,511,807</u>	<u>450,660</u>	<u>(241,808)</u>	<u>4,720,659</u>	<u>260,326</u>	<u>4,460,333</u>
Total long-term liabilities	<u>\$ 38,787,402</u>	<u>\$ 1,389,334</u>	<u>(\$ 5,452,786)</u>	<u>\$ 34,723,950</u>	<u>\$ 4,618,293</u>	<u>\$ 30,105,657</u>

Note 7. Long-Term Liabilities (Continued)

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2008 and 2007 consist of the following:

	2008	2007
1995 D, issued \$ 16,685,000 in June 1995; at a fixed rate of 4.50% -6.25%; interest and principal payable semi-annually through April 1, 2011	\$ 2,945,000	\$ 4,810,000
2004, issued \$ 26,530,000 in July 2004; at a fixed rate of 2.25% - 5.25%; interest and principal payable semi-annually through April 2024	18,790,000	20,765,000
2005, issued \$ 5,435,000 in July 2005; at a fixed rate of 3.00% - 4.00%; interest and principal payable semi-annually through April 2015	3,985,000	4,480,000
2007, issued \$ 18,020,000 in July 2007; at a fixed rate of 5.30% through March 31, 2012, thereafter, a variable rate of not more than 9% based on 65% of the Fulton prime rate; interest and principal payable semi-annually through April 2028	<u>17,240,000</u>	<u>0</u>
Total bonds payable	<u>\$ 42,960,000</u>	<u>\$ 30,055,000</u>

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

Note Payable

The general obligation note payable 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. The note was fully paid off during the fiscal year ended June 30, 2007.

The revolving loan note payable of \$ 65,563 to the State Public School Building Authority (SPSBA) dated April 1, 2008 has a fixed interest rate of 2.78% and a maturity date of December 1, 2012. Interest and principal are payable semi-annually beginning June 1, 2008. This note was not fully drawn as of June 30, 2008 for the full amount of \$ 1,575,000; however, it is expected to be fully drawn by June 30, 2009. The amount left to be drawn as of June 30, 2008 was \$ 1,341,191. The future maturities are included on the schedule below.

Note 7. Long-Term Liabilities (Continued)

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 are as follows:

Year ending June 30	State Share		College Share		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest			
2009	\$ 2,275,066	\$ 1,010,331	\$ 2,174,174	\$ 994,285	\$ 4,449,240	\$ 2,004,616	\$ 6,453,856
2010	2,228,690	911,735	2,148,926	901,458	4,377,616	1,813,193	6,190,809
2011	2,318,392	819,568	2,232,836	814,221	4,551,228	1,633,789	6,185,017
2012	1,615,027	723,540	1,615,027	723,540	3,230,054	1,447,080	4,677,134
2013	1,582,967	664,634	1,582,967	664,634	3,165,934	1,329,268	4,495,202
2014-2018	4,605,000	2,543,260	4,605,000	2,543,260	9,210,000	5,086,520	14,296,520
2019-2023	4,217,500	1,599,743	4,217,500	1,599,743	8,435,000	3,199,486	11,634,486
2024-2028	3,477,500	523,425	3,477,500	523,424	6,955,000	1,046,849	8,001,849
Total	<u>\$ 22,320,142</u>	<u>\$ 8,796,236</u>	<u>\$ 22,053,930</u>	<u>\$ 8,764,565</u>	<u>\$ 44,374,072</u>	<u>\$ 17,560,801</u>	<u>\$ 61,934,873</u>

Subsequent Event

On October 7, 2008, the Board of Trustees authorized the issuance of \$ 44,500,000 in College Revenue Bonds. The issuance is expected to occur in the last quarter of 2008 or sometime in 2009. The purpose of the issuance is to fund (i) the acquisition of land together with demolition and/or renovation of existing structures, and the planning, designing, permitting and construction of buildings and facilities to house a York Campus together with parking facilities; (ii) the Harrisburg Midtown I Phase Two Project consisting of renovations to the Harrisburg Campus Midtown I/Community Center for Technology and the Arts Facility (hereinafter collectively referred to as the "Project"); and (iii) the refunding of the 2007 interim financing for the purchase and renovation of the Gettysburg Campus Building.

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:

2009	\$ 33,681
2010	837
Total	<u>\$ 34,518</u>

The estimated ERSIP liability is discounted at a rate of 5.0% and is \$ 32,836 and \$ 73,629 at June 30, 2008 and 2007, 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:

	2008	2007
Amount capitalized	\$ 242,735	\$ 242,735
Accumulated amortization	(203,346)	(167,918)
Net book value	<u>\$ 39,389</u>	<u>\$ 74,817</u>

Note 8. Leases (Continued)

Amortization expense of \$ 35,428 for 2008 and 2007 is included with depreciation expense.

The future minimum lease payments under capital leases as of June 30, 2008 are as follows:

2010	\$ 3,699
Amount representing interest	(68)
	<u>\$ 3,631</u>

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:

2009	\$ 4,035,034
2010	3,704,399
2011	3,432,859
2012	3,422,363
2013	3,468,818
2014-2018	11,615,502
2019-2023	<u>8,220,025</u>
Total minimum lease payments	<u>\$ 37,899,000</u>

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:

2009	\$ 4,089,957
2010	4,089,957
2011	4,089,957
2012	4,089,957
2013	4,089,957
2014-2018	20,449,785
2019-2023	17,416,060
2024-2027	<u>5,299,781</u>
Total minimum lease payments	<u>\$ 63,615,411</u>

The total rent under operating leases for the years ended June 30, 2008 and 2007 was \$ 8,845,462 and \$ 7,563,136, 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:

	June 30, 2008
2005-2006	\$ 57,823
2007-2008	786,976
	<u>\$ 844,799</u>
	June 30, 2007
2005 - 2006	\$ 57,823
2006 - 2007	73,248
	<u>\$ 131,071</u>

Under the terms of the Commonwealth Community College Funding Legislation (Act 46), annual audits are prepared by each College's external audit firm and submitted to the Department of Education for review. Such audits could lead to reimbursement of appropriated funds 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 coverage. The liability for estimated claims at June 30, 2008 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2008	2007
Beginning balance	\$ 116,404	\$ 106,313
Claims made/Changes in estimates	541,910	475,705
Claims paid	(526,651)	(465,614)
Ending balance	<u>\$ 131,663</u>	<u>\$ 116,404</u>

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, 2008 and 2007 was 3.57 and 3.23 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2008, 2007, and 2006, were \$ 112,571, \$ 97,215, and \$ 64,092, 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 2.63 percent for Class A and 3.28 percent for Class AA for the year ended June 30, 2008, and 2.59 percent for Class A and 3.23 percent for Class AA for the year ended June 30, 2007, respectively. The College's contributions to SERS for the years ended June 30, 2008, 2007, and 2006, were \$ 205,039, \$ 151,087, and \$ 97,629, 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 each of the years ended June 30, 2008, 2007, and 2006 was 10 percent of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity.

Note 11. Pension Benefits (Continued)

The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2008	2007	2006
College	\$ 3,832,288	\$ 3,553,544	\$ 3,338,738
Employees	3,835,192	3,629,019	3,279,084

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.

Lancaster Campus Phase II Construction Disputes

Harrisburg Area Community College (“HACC”) leases the Lancaster Campus from Pitney Road Partners, LLC (“Pitney”) under an agreement that includes an option to purchase. Under this agreement, Pitney agreed to construct a new building at the Lancaster Campus and contracted with Warfel Construction Company (“Warfel”). Pitney financed the construction of the Lancaster Campus through the issuance of bonds backed by a letter of credit issued through a consortium of banks (“Lender Group”). Although the contract between Pitney and Warfel contained a guaranteed maximum price, disputes arose between them regarding the final construction costs. The dispute proceeded to arbitration, and after extensive settlement negotiations, Warfel agreed to accept a total of \$ 4.9 million. Of that amount, approximately \$ 2.1 million was covered by the balance held in a project fund. Pitney and HACC each agreed to contribute an amount slightly in excess of \$1.4 million, achieving the total cash payment to Warfel of \$ 4.9 million. The \$ 1.4 million agreed to by HACC was accrued at June 30, 2007 and was paid in August 2007, with an offset to other assets pending the outcome of the arbitration process and the final determination of exercising the option to purchase.

Pitney initiated litigation against HACC to recover the additional construction costs awarded by the arbitration panel to Warfel, as well as other alleged damages. Indirectly as a result of the disputes and litigations pending, the trustee called one of the series of bonds, resulting in the drawdown of the letter of credit supporting the bonds and a default under the financing arrangements. The Lender Group agreed to forebear on any claims or potential claims against Pitney and HACC arising out of the alleged defaults in the financial agreements, while Pitney and HACC resolve their disputes. Pitney and HACC agreed to arbitrate all disputes between them, including which party is responsible for the cost overruns paid to Warfel and for the claims of the Lender Group. The arbitration process between HACC and Pitney is in the early stages, and consequently, the full amount of claims or damages being asserted by Pitney cannot be determined. The arbitration process is expected to take approximately another year to complete as a third arbitrator is currently being sought.

Note 12. Contingencies and Commitments (Continued)*Commitments*

As of June 30, 2008, the College had commitments for the following projects:

	Total Estimated Costs	Total Costs Paid as of June 30, 2008
Master Plan	\$ 4,706,381	\$ 3,861,274
CCTA Phase I (Midtown Campus)	2,388,042	734,042
Gettysburg Renovation	7,989,121	985,598
Cooper Roof	190,510	2,278
Blocker Labs	73,500	57,421
Emergency Notification System	80,000	9,504
York Phase IV	508,600	264,585
	<u>\$ 15,936,154</u>	<u>\$ 5,914,702</u>

Note 13. State Appropriations

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

	2008	2007
Included in non-operating revenue:		
Social security reimbursement	\$ 2,367,073	\$ 2,177,728
Tuition reimbursement	<u>32,015,422</u>	<u>30,109,654</u>
Sub-total	<u>34,382,495</u>	<u>32,287,382</u>
Included in capital contributions:		
Debt reimbursement	3,672,912	3,471,087
Lease reimbursement	<u>4,450,377</u>	<u>4,028,064</u>
Sub-total	<u>8,123,289</u>	<u>7,499,151</u>
Total	<u>\$ 42,505,784</u>	<u>\$ 39,786,533</u>

Note 14. Net Assets*College:*

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

	2008	2007
Capital assets, net	\$ 94,860,130	\$ 82,468,537
Bond issue costs, net	363,934	324,356
Bonds and notes payable, net	(42,947,254)	(29,971,887)
Capital lease payable	(3,631)	(31,404)
Unspent bond proceeds	<u>8,317,434</u>	<u>243,227</u>
Total	<u>\$ 60,590,613</u>	<u>\$ 53,032,829</u>

The remaining net assets of the college are considered unrestricted.

Note 14. Net Assets (Continued)

HACC Foundation:

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

	2008	2007
Designated for endowment purposes	\$ 926,054	\$ 823,431
Undesignated	<u>3,589,152</u>	<u>5,220,304</u>
	<u>\$ 4,515,206</u>	<u>\$ 6,043,735</u>

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

	2008	2007
Provide support for future years' activities	<u>\$ 11,382,980</u>	<u>\$ 15,851,454</u>

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

	2008	2007
Scholarships and awards	\$ 10,812,589	\$ 10,554,823
Academic support	701,157	725,737
Other	<u>433,243</u>	<u>464,105</u>
	<u>\$ 11,946,989</u>	<u>\$ 11,744,665</u>

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
Years Ended June 30, 2008 and 2007

2008								
FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	\$ 39,986,199	\$ 9,156,281	\$ 4,337,181	\$ 2,788,532	\$ 0	\$ 0	\$ 754,470	\$ 57,022,663
Research	4,785	1,211	909	50,334	0	0	0	57,239
Public Support	18,611	1,532	29,881	5,086	0	0	0	55,110
Academic Support	3,581,536	1,083,272	1,273,888	63,608	0	0	0	6,002,304
Student Services	7,476,590	2,406,953	753,075	555,956	0	0	24,329	11,216,903
Institutional Support	8,316,412	4,004,114	2,493,393	3,246,059	0	3,374,206	0	21,434,184
Operation and Maintenance of Plant	2,958,914	1,255,205	11,163,002	1,306,904	3,353,109	3,481,624	0	23,518,758
Student Aid	461,207	0	0	0	0	0	13,018,694	13,479,901
Auxiliary Enterprises	1,064,506	374,848	8,824,726	108,845	20,226	0	0	10,393,151
Total operating expenses	<u>\$ 63,868,760</u>	<u>\$ 18,283,416</u>	<u>\$ 28,876,055</u>	<u>\$ 8,125,324</u>	<u>\$ 3,373,335</u>	<u>\$ 6,855,830</u>	<u>\$ 13,797,493</u>	<u>\$ 143,180,213</u>
Interest expense								1,915,929
Total expenses								<u>\$ 145,096,142</u>

2007								
FUNCTIONAL CLASSIFICATION	NATURAL CLASSIFICATION							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	\$ 37,070,311	\$ 8,592,350	\$ 4,147,028	\$ 1,947,591	\$ 0	\$ 0	\$ 296,716	\$ 52,053,996
Research	0	0	3,138	12,500	0	0	0	15,638
Public Support	0	0	0	0	0	0	0	0
Academic Support	3,374,286	977,746	1,172,543	97,744	0	0	0	5,622,319
Student Services	6,907,849	2,154,448	519,325	525,997	0	0	27,148	10,134,767
Institutional Support	7,448,953	3,385,901	2,405,310	2,385,972	0	3,709,729	0	19,335,865
Operation and Maintenance of Plant	2,705,338	1,160,570	9,595,223	904,381	2,823,858	2,574,070	0	19,763,440
Student Aid	357,447	0	0	0	0	0	9,838,465	10,195,912
Auxiliary Enterprises	1,005,661	376,715	7,914,916	97,151	21,545	0	0	9,415,988
Total operating expenses	<u>\$ 58,869,845</u>	<u>\$ 16,647,730</u>	<u>\$ 25,757,483</u>	<u>\$ 5,971,336</u>	<u>\$ 2,845,403</u>	<u>\$ 6,283,799</u>	<u>\$ 10,162,329</u>	<u>\$ 126,537,925</u>
Interest expense								1,408,824
Total expenses								<u>\$ 127,946,749</u>

HARRISBURG AREA COMMUNITY COLLEGE

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Cash Receipts	Accrual Basis Expenditures
Department of Education:			
Student Financial Aid			
FSEOG Program	84.007	\$ 352,094	\$ 352,094
FWS Program	84.033	453,381	484,268
PELL Program	84.063	12,479,274	12,542,403
Perkins Loan Program	84.038	0	44,768
Federal Academic Competitive Grant	84.375	141,375	141,375
Federal Academic Second	84.375	38,875	42,250
Total student financial aid		<u>13,464,999</u>	<u>13,607,158</u>
Passed through PHEAA			
Robert C. Byrd Scholarship	84.185A	<u>2,250</u>	<u>2,250</u>
Passed through Pennsylvania Department of Education			
Adult Basic Education	84.002	39,721	36,116
Vocational Educational Grants Perkins III	84.048	1,441,145	1,379,338
Title III-E Tech Prep Education	84.243	<u>376,849</u>	<u>313,774</u>
Total passed through Pennsylvania Department of Education		<u>1,857,715</u>	<u>1,729,228</u>
Total Department of Education		<u>15,324,964</u>	<u>15,338,636</u>
Department of Labor:			
Community Based Job Training Grant	17.261	<u>713,963</u>	<u>882,498</u>
Passed through Southcentral Employment Corporation			
Job Training Equipment Grant	17.260	193,362	0
Job Skill Occupation initiative	17.260	250,000	0
Circuit Rider Program	17.260	1,398	0
Circuit Rider Program	17.258	699	0
Circuit Rider Program	17.259	<u>1,398</u>	<u>0</u>
Total passed through Southcentral Employment Corporation		<u>446,857</u>	<u>0</u>
Total Department of Labor		<u>1,160,820</u>	<u>882,498</u>
National Science Foundation:			
AM Foundation for Education & Career Path	47.076	<u>5,506</u>	<u>4,777</u>
Department of Health and Human Services:			
Passed through Child Care Consultants, Inc.			
South Central Regional Key (CCCI)	93.575	42,110	44,271
Keystone Stars Support (CCRD)	93.575	<u>109,184</u>	<u>110,013</u>
Total passed through child care consultants, inc.		<u>151,294</u>	<u>154,284</u>
Passed through Southcentral Employment Corporation			
Keystone education yields success (KEYS)	93.558	374,051	346,204
H.E.A.P. Tuition Assistance for Dislocated Worker	93.558	<u>559,529</u>	<u>563,633</u>
		<u>933,580</u>	<u>909,837</u>
Total Department of Health and Human Services		<u>1,084,874</u>	<u>1,064,121</u>
Corporation for National and Community Service:			
Americorp grant	94.006	<u>30,748</u>	<u>31,548</u>
Total federal financial assistance		<u>\$ 17,606,912</u>	<u>\$ 17,321,580</u>

HARRISBURG AREA COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. General Information/Basis of Accounting

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, 2008 are identified below:

	CFDA Number	Disbursements	
Perkins Loan Program	84.038	\$ 43,500	New Loans
		<u>1,268</u>	Expenses
		<u>\$ 44,768</u>	
Federal Stafford and PLUS Loans	84.032	<u>\$ 45,188,056</u>	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 related transactions. The balance of Federal Perkins loans outstanding as of June 30, 2008 was \$ 218,449, 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.

HARRISBURG AREA COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Note 4. Basis of Presentation

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

Note 5. Administrative Expenses

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



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE 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, 2008, and have issued our report thereon dated October 15, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Harrisburg Area Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harrisburg Area Community College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement to the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Board of Trustees
Harrisburg Area Community College

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Harrisburg Area Community College in a separate letter dated October 15, 2008.

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 15, 2008



**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, 2008. 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, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.



Board of Trustees
Harrisburg Area Community College

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 15, 2008

HARRISBURG AREA COMMUNITY COLLEGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

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
- Significant deficiencies identified not considered
to be material weaknesses? _____yes X reported None
- (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
- Significant deficiencies identified that are not
considered to be material weaknesses? _____yes X reported None
- (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
17.261	Community Based Job Training
93.558	Keystone Educational Yields Success (KEYS)
93.558	H.E.A.P. Tuition Assistance for Dislocated Workers
	Student Financial Aid Cluster:
84.007	FSEOG Program
84.063	PELL Program
84.033	FWS Program
84.038	Perkins Loan Program
84.375	Federal Academic Second

- (viii) Dollar threshold used to distinguish between Type A
and Type B programs: \$ 519,647
- (ix) Auditee qualified as low-risk auditee? _____yes X no

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2008

Part II

Financial Statement Findings Section:

None

Federal Awards Findings Section:

None

HARRISBURG AREA COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2008

Findings – Financial Statement Audit

Condition 2007-1:

Condition: It was determined that payments for larger capital asset projects are being capitalized and depreciated before the asset is placed in service. In addition, there were several construction invoices that were not properly accrued at year end.

Status: No similar problems were identified during the year ended June 30, 2008.