

**HARRISBURG AREA
COMMUNITY COLLEGE**

ANNUAL
FINANCIAL
REPORT

FOR THE YEAR ENDED JUNE 30, 2001

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

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have performed the Single Audit of Harrisburg Area Community College for the fiscal year ended June 30, 2001 and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133. It entailed: 1. an audit of the general purpose financial statements and the schedule of expenditures of federal awards and our opinion thereon; 2. a review of compliance with laws and regulations and internal control over financial reporting based on an audit of the general purpose financial statements in accordance with "*Government Auditing Standards*" issued by the GAO and a report thereon; and 3. a review of compliance with requirements applicable to major programs and internal control over compliance and our opinion thereon.

We have issued a management letter for the fiscal year ended June 30, 2001.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 8, 2001

HARRISBURG AREA COMMUNITY COLLEGE

LIST OF REPORT DISTRIBUTION

JUNE 30, 2001

2 Reports - Federal Audit Clearing House
Bureau of Census
1201 East 10th Street
Jeffersonville, Indiana 47132

5 Reports - Bureau of Audits
Bell Tower – 6th Floor
303 Walnut Street
Harrisburg, Pennsylvania 17101-1830



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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the accompanying balance sheets of Harrisburg Area Community College, as of and for the years ended June 30, 2001 and 2000, and the related statements of changes in fund balances and of current fund revenues, expenditures, and other changes. These financial statements are the responsibility of Harrisburg Area Community College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harrisburg Area Community College as of June 30, 2001 and 2000, and the changes in its fund balances, and its current fund revenues, expenditures, and other changes for the year 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 8, 2001 on our consideration of Harrisburg Area Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "*Government Auditing Standards*" and should be read in conjunction with this report in considering the results of our audit.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 8, 2001

HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2001 and 2000

ASSETS

	2001	2000
Current funds:		
Unrestricted:		
Cash and equity in pooled cash and investments	\$ 10,401,934	\$ 7,045,800
Accounts receivable:		
Tuition and fees, net of allowance of \$150,000 in 2001 and \$50,000 in 2000	2,695,760	3,193,694
Other	564,603	651,006
Intergovernmental receivable	700	105,151
Inventories	511,942	633,073
Prepaid expenses and deferred charges	65,303	139,462
Due from other funds	8,855	851,389
Other assets	<u>0</u>	<u>7,470</u>
Total unrestricted	<u>\$ 14,249,097</u>	<u>\$ 12,627,045</u>

	2001	2000
Current funds:		
Unrestricted:		
Accounts payable	\$ 1,503,406	\$ 1,315,262
Accrued liabilities	4,069,709	4,094,796
Deferred revenue	1,626,022	1,411,864
Due to Commonwealth of Pennsylvania	263,689	1,313,314
Fund balance:		
Undesignated	<u>6,786,271</u>	<u>4,491,809</u>
Total unrestricted	<u>\$ 14,249,097</u>	<u>\$ 12,627,045</u>
Restricted:		
Accounts payable	\$ 413,695	\$ 454,920
Deferred revenue	<u>278,306</u>	<u>233,247</u>
Total restricted	<u>\$ 692,001</u>	<u>\$ 688,167</u>
Total current funds	<u>\$ 14,941,098</u>	<u>\$ 13,315,212</u>

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

**HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2001 and 2000**

		LIABILITIES AND FUND BALANCES	
		2001	2000
ASSETS			
Plant funds:			
Cash and equity in pooled cash and investments	\$ 4,187,030	\$ 5,305,528	
Accounts receivable	21,400	279	
Due from SPSBA	2,160,089	146,289	
Accrued interest receivable	15,900	21,362	
Due from other funds	0	40,000	
Land	1,639,470	1,639,470	
Land improvements	526,353	338,207	
Buildings	50,568,393	50,529,140	
Building improvements	11,430,519	10,573,036	
Leasehold improvements	1,061,056	90,124	
Equipment	18,294,897	16,051,127	
Accumulated depreciation	<u>(25,422,716)</u>	<u>(22,506,035)</u>	
Property, plant, and equipment, net	58,097,972	56,715,069	
Bond discount and issuance costs, net	<u>141,465</u>	<u>167,121</u>	
Total plant funds	<u>\$ 64,623,856</u>	<u>\$ 62,395,648</u>	
		<u>\$ 64,623,856</u>	<u>\$ 62,395,648</u>
		<u>35,212,080</u>	<u>33,823,300</u>
		<u>4,395,789</u>	<u>5,164,967</u>
		<u>20,630,000</u>	<u>23,025,000</u>
		<u>3,200,000</u>	<u>0</u>
		<u>631</u>	<u>23</u>
		<u>0</u>	<u>23,000</u>
		<u>1,185,356</u>	<u>\$ 359,358</u>

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

HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2001 and 2000

ASSETS

	2001	2000
Agency funds:		
Cash and equity in pooled cash and investments	\$ 255,786	\$ 351,046
Accounts receivable	0	183
Contributions receivable	2,715	3,930
Prepaid expenses	0	352
Other	0	33
Total agency funds	\$ 258,501	\$ 355,544

Special revenue funds:		
Cash and equity in pooled cash and investments	(\$ 1,262,782)	(\$ 1,344,450)
Investments	24,367,894	27,566,888
Accounts receivable	11,932	4,117
Pledges receivable	358,941	285,781
Accrued interest receivable	85,305	128,697
Prepaid expenses	0	250
Total special revenue funds	\$ 23,561,290	\$ 26,641,283

Total agency funds	\$ 258,501	\$ 355,544
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Agency funds:		
Accounts payable	\$ 16,399	\$ 49,742
Deposits held in custody for others	242,102	305,802
Total agency funds	\$ 258,501	\$ 355,544

Special revenue funds:		
Accounts payable	\$ 30,142	\$ 16,859
Due to other funds	8,855	867,344
Fund balances:		
Unrestricted	9,822,140	11,577,967
Unrestricted - board designated	9,963	0
Temporarily restricted	2,593,279	2,466,853
Permanently restricted	11,096,911	11,712,260
Total special revenue funds	\$ 23,561,290	\$ 26,641,283

Loan funds:		
Cash and equity in pooled cash and investments	\$ 68,378	\$ 77,748
Notes and accounts receivable	181,125	180,962
Total loan funds	\$ 249,503	\$ 258,710

LIABILITIES AND FUND BALANCES

	2001	2000
Agency funds:		
Accounts payable	\$ 16,399	\$ 49,742
Deposits held in custody for others	242,102	305,802
Total agency funds	\$ 258,501	\$ 355,544

Special revenue funds:		
Accounts payable	\$ 30,142	\$ 16,859
Due to other funds	8,855	867,344
Fund balances:		
Unrestricted	9,822,140	11,577,967
Unrestricted - board designated	9,963	0
Temporarily restricted	2,593,279	2,466,853
Permanently restricted	11,096,911	11,712,260
Total special revenue funds	\$ 23,561,290	\$ 26,641,283

Total agency funds	\$ 258,501	\$ 355,544
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Loan funds:		
Accounts payable	\$ 992	\$ 368
Fund balances:		
Restricted:		
Government loan programs	269,822	279,653
College loan programs	(21,311)	(21,311)
Total loan funds	\$ 249,503	\$ 258,710

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 2001

	Current Funds		Plant Funds			Special Revenue Funds
	Unrestricted	Restricted	Loan Funds	Unexpended Plant	Retirement of Indebtedness	
Revenues and other additions:						
Unrestricted current fund revenues	\$ 55,743,331	\$ 0	\$ 0	\$ 1,289,393	\$ 0	\$ 802,221
State appropriations	0	0	0	669,192	1,854,216	0
Governmental grants and contracts	0	8,802,302	0	433,339	200,000	0
Private gifts, grants, and contracts	0	718,214	0	183,955	352,245	839,726
Investment income	0	0	851	410,870	0	0
Realized and unrealized gains(losses) on investments	0	0	0	(17,637)	0	0
Interest and fees on loans receivable	0	0	3,156	0	0	0
Expended for plant facilities	0	0	0	0	0	2,534,130
Retirement of indebtedness	0	0	0	0	0	2,395,000
Other	0	0	0	7,261	0	0
Total revenue and other additions	55,743,331	9,520,516	4,007	2,976,373	2,406,461	5,016,789
Expenditures and other deductions:						
Educational and general	49,392,193	9,520,516	0	0	0	0
Auxiliary enterprises	3,544,613	0	0	0	0	828,658
Program services	0	0	0	0	0	1,210,407
Supporting services	0	0	0	0	0	261,000
Administrative and collection costs	0	0	5,492	0	0	0
Cancellation of loans	0	0	8,346	0	0	0
Expended for plant facilities - net of assets purchased with bond proceeds - \$ 2,419,296	0	0	0	3,141,897	0	0
Retirement of indebtedness	0	0	0	0	2,395,000	0
Interest on indebtedness	0	0	0	0	1,197,178	0
Depreciation of plant and equipment	0	0	0	0	0	3,337,255
Disposal of plant and equipment	0	0	0	0	0	265,098
Amortization of bond discount and issuance costs	0	0	0	0	0	25,656
Total expenditures and other deductions	52,936,806	9,520,516	13,838	3,141,897	3,592,178	2,300,065

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

HARRISBURG AREA COMMUNITY COLLEGE
 STATEMENT OF CHANGES IN FUND BALANCES
 Year Ended June 30, 2001

	Current Funds		Plant Funds			Special Revenue Funds
	Unrestricted	Restricted	Loan Funds	Unexpended Plant	Retirement of Indebtedness	
Transfers among funds - additions (deductions):						
Mandatory - retirement of indebtedness	(408,563)	0	0	(394,088)	802,651	0
Non-mandatory	(103,500)	0	0	(209,566)	383,066	(70,000)
Total transfers	(512,063)	0	0	(603,654)	1,185,717	(70,000)
Net increase (decrease)	2,294,462	0	(9,831)	(769,178)	0	1,388,780
Fund balance at June 30, 2000, as restated	4,491,809	0	258,342	5,164,967	0	33,823,300
Fund balance at June 30, 2001	\$ 6,786,271	\$ 0	\$ 248,511	\$ 4,395,789	\$ 0	\$ 35,212,080
						\$ 23,522,293

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 2000

	Current Funds			Plant Funds			Special Revenue Funds
	Unrestricted	Restricted	Loan Funds	Unexpended Plant	Retirement of Indebtedness	Net Investment in Plant	
Revenues and other additions:							
Unrestricted current fund revenues	\$ 51,530,597	\$ 0	\$ 0	\$ 855,086	\$ 0	\$ 0	\$ 885,111
State appropriations	0	0	0	543,349	1,946,424	0	0
Governmental grants and contracts	0	6,889,901	0	200,000	0	0	0
Private gifts, grants, and contracts	0	751,596	0	469,629	352,245	0	693,927
Investment income	0	0	1,786	451,876	0	0	721,074
Realized and unrealized gains on investments	0	0	0	0	0	0	1,055,953
Interest and fees on loans receivable	0	0	4,707	0	0	0	0
Expended for plant facilities	0	0	0	0	0	3,211,521	0
Retirement of indebtedness	0	0	0	0	0	2,290,000	0
Other	0	0	0	47,882	0	0	0
Total revenue and other additions	51,530,597	7,641,497	6,493	2,567,822	2,298,669	5,501,521	3,356,065
Expenditures and other deductions:							
Educational and general	46,977,842	7,641,497	0	0	0	0	0
Auxiliary enterprises	3,604,753	0	0	0	0	0	906,845
Program services	0	0	0	0	0	0	1,907,064
Supporting services	0	0	0	0	0	0	287,566
Administrative and collection costs	0	0	5,594	0	0	0	0
Expended for plant facilities - net of assets purchased with bond proceeds - \$ 372,486	0	0	0	2,629,698	0	0	0
Retirement of indebtedness	0	0	0	0	2,382,343	0	0
Interest on indebtedness	0	0	0	0	1,307,700	0	0
Depreciation of plant and equipment	0	0	0	0	0	3,449,600	0
Disposal of plant and equipment	0	0	0	0	0	37,077	0
Amortization of bond discount and issuance costs	0	0	0	0	0	25,855	0
Total expenditures and other deductions	50,582,595	7,641,497	5,594	2,629,698	3,690,043	3,512,532	3,101,475

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

HARRISBURG AREA COMMUNITY COLLEGE
 STATEMENT OF CHANGES IN FUND BALANCES
 Year Ended June 30, 2000

	Current Funds			Plant Funds			Special Revenue Funds
	Unrestricted	Restricted	Loan Funds	Unexpended Plant	Retirement of Indebtedness	Net Investment in Plant	
Transfers among funds - additions (deductions):							
Mandatory - retirement of indebtedness	(408,912)	0	0	196,590	212,322	0	0
Non-mandatory	(183,525)	0	0	(925,986)	1,179,052	0	(69,541)
Total transfers	(592,437)	0	0	(729,396)	1,391,374	0	(69,541)
Net increase (decrease)	355,565	0	899	(791,272)	0	1,988,989	185,049
Fund balance at July 1, 1999 as originally stated	4,939,491	0	257,443	5,956,239	0	31,834,311	25,572,031
Prior period adjustment	(803,247)	0	0	0	0	0	0
Fund balance at July 1, 1999 as restated	4,136,244	0	257,443	5,956,239	0	31,834,311	25,572,031
Fund balance at June 30, 2000	\$ 4,491,809	\$ 0	\$ 258,342	\$ 5,164,967	\$ 0	\$ 33,823,300	\$ 25,757,080

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

HARRISBURG AREA COMMUNITY COLLEGE

**STATEMENT OF CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Tuition and fees	\$ 25,024,123	\$ 0	\$ 25,024,123
Federal appropriations	0	0	0
State appropriations	17,337,657	0	17,337,657
Local appropriations	7,347,728	0	7,347,728
Federal grants and contracts	0	5,376,362	5,376,362
State grants and contracts	105,151	3,396,928	3,502,079
Local grants and contracts	0	29,012	29,012
Private gifts, grants, and contracts	225,737	718,214	943,951
Investment income	298,267	0	298,267
Sales and services of auxiliary enterprises	4,180,079	0	4,180,079
Other sources	1,224,589	0	1,224,589
	<u>55,743,331</u>	<u>9,520,516</u>	<u>65,263,847</u>
Total current revenues			
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	28,420,005	2,347,331	30,767,336
Research	0	6,591	6,591
Public support	0	42,329	42,329
Academic support	3,210,611	300,369	3,510,980
Student services	4,769,093	361,174	5,130,267
Institutional support	8,328,246	3,280	8,331,526
Operation and maintenance of plant	4,664,238	0	4,664,238
Payments to subrecipients	0	249,982	249,982
Student aid	0	6,209,460	6,209,460
	<u>49,392,193</u>	<u>9,520,516</u>	<u>58,912,709</u>
Educational and general expenditures			
Mandatory transfers for:			
Principal and interest	408,563	0	408,563
Non-mandatory transfers	(260,000)	0	(260,000)
	<u>49,540,756</u>	<u>9,520,516</u>	<u>59,061,272</u>
Total educational and general			
Auxiliary enterprises:			
Expenditures	3,544,613	0	3,544,613
Non-mandatory transfer	363,500	0	363,500
	<u>3,908,113</u>	<u>0</u>	<u>3,908,113</u>
Total auxiliary enterprises			
Total expenditures and mandatory transfers			
	<u>53,448,869</u>	<u>9,520,516</u>	<u>62,969,385</u>
Net increase in fund balances			
	<u>\$ 2,294,462</u>	<u>\$ 0</u>	<u>\$ 2,294,462</u>

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

HARRISBURG AREA COMMUNITY COLLEGE

STATEMENT OF CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2000

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	\$ 23,743,650	\$ 0	\$ 23,743,650
Federal appropriations	4,613	0	4,613
State appropriations	15,803,885	0	15,803,885
Local appropriations	6,930,546	0	6,930,546
Federal grants and contracts	0	4,680,857	4,680,857
State grants and contracts	119,339	2,002,341	2,121,680
Local grants and contracts	0	206,703	206,703
Private gifts, grants, and contracts	225,928	751,596	977,524
Investment income	121,516	0	121,516
Sales and services of auxiliary enterprises	3,635,782	0	3,635,782
Other sources	945,338	0	945,338
Total current revenues	51,530,597	7,641,497	59,172,094
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	27,368,653	1,760,186	29,128,839
Public support	0	17,276	17,276
Academic support	2,898,928	65,097	2,964,025
Student services	4,515,995	151,603	4,667,598
Institutional support	8,015,250	48,976	8,064,226
Operation and maintenance of plant	4,179,016	29,010	4,208,026
Payments to subrecipients	0	274,472	274,472
Student aid	0	5,294,877	5,294,877
Educational and general expenditures	46,977,842	7,641,497	54,619,339
Mandatory transfers for:			
Principal and interest	408,912	0	408,912
Non-mandatory transfers	(166,475)	0	(166,475)
Total educational and general	47,220,279	7,641,497	54,861,776
Auxiliary enterprises:			
Expenditures	3,604,753	0	3,604,753
Non-mandatory transfer	350,000	0	350,000
Total auxiliary enterprises	3,954,753	0	3,954,753
Total expenditures and mandatory transfers	51,175,032	7,641,497	58,816,529
Net increase in fund balances	\$ 355,565	\$ 0	\$ 355,565

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary Of Significant Accounting Policies

Organization

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

Reporting Entity – The Harrisburg Area Community College Foundation and the Wildwood Conference Center Foundation are included in the College's financial statements as component units (reported as special revenue funds) due to the oversight responsibility of the College. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. Separate financial statements are available for the HACC Foundation.

Basis of Presentation – The financial statements of the College have been prepared in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities, as outlined in the American Institute of Certified Public Accountants ("AICPA") Industry Audit Guide, *Audits of Colleges and Universities*, ("Audit Guide") and pronouncements issued by the Governmental Accounting Standards Board ("GASB").

The financial statements of the College have been prepared on the accrual basis of accounting. The Statement of Current Funds Revenues, Expenditures, Transfers, and Other Changes in Fund Balances is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income for the period as would a statement of income or a statement of revenue and expenses. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) nonmandatory transfers for all other cases.

Fund Accounting – In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

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

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

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.

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.

Restricted Intergovernmental Receivables – These receivables represent amounts granted to the College for donor-specified purposes. All of the counterparties to the restricted receivables are the federal and state governments. The composition of the amount is approximately 75% federal and 25% state for both years.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, each fund's equity in the College's investment pool.

Investments are reported at fair value. Gains and losses arising from the disposition of investments are recognized in the fund which accounts for such assets. Income from investments is recognized in the fund accounting for them.

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

Land, Buildings and Equipment – 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. 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.

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*, and, accordingly, the liability for employees' rights to receive compensation for future absences is recorded as a liability in the current unrestricted fund.

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 10 for additional information.

Note 1. Summary Of Significant Accounting Policies (Continued)

Reclassifications – Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 reporting presentation.

Note 2. Cash and Equity in Pooled Cash and Investments

At June 30, 2001, the carrying amounts of the College's deposits were \$ 4,744,079 (2001) and \$ 3,834,402 (2000), and the bank balances were \$ 6,137,170 (2001) and \$ 4,779,977 (2000). The College's deposits are covered by federal depository insurance or by pooled, pledged assets (not in the name of the College) of the various depositories pursuant to the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Federal depository insurance coverage amounted to \$ 183,212 (2001) and \$ 110,756 (2000), while Act 72 coverage was \$ 5,953,958 (2001) and \$ 4,669,221 (2000).

Included in cash and equity in pooled cash and investments are pooled investments in the Pennsylvania School District Liquid Asset Fund with carrying amounts/bank balances of \$ 6,048,065 (2001) and \$ 4,290,840 (2000). Also included are Commonfund short-term investments with carrying amounts/bank balances of \$ 2,658,589 (2001) and \$ 1,847,184 (2000). Since these funds have the characteristics of a mutual fund, they are not categorized by risk category in accordance with Governmental Accounting Standards Board Statement Number 3. These investments are properly collateralized and have market values that approximate cost.

Also included in cash and equity in pooled cash and investments are the following investments:

	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Mutual funds	<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 18,520</u>	<u>\$ 481,480</u>
	2000			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Mutual funds	\$ 500,000	\$ 0	\$ 28,705	\$ 471,295
U.S. Treasury note	<u>960,000</u>	<u>1,758</u>	<u>0</u>	<u>962,500</u>
	<u>\$ 1,460,742</u>	<u>\$ 1,758</u>	<u>\$ 28,705</u>	<u>\$ 1,433,795</u>

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

The U.S. Treasury note is backed by the government and is therefore considered collateralized (not in the name of the College).

Note 3. Investments

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

	2001		
	Cost	Market Value	Unrealized Gains (Losses)
Money market funds	\$ 214,759	\$ 214,809	\$ 50
Equities	17,363,380	15,678,021	(1,685,359)
Government obligations	5,217,042	5,343,914	126,872
Corporate bonds	<u>3,107,744</u>	<u>3,131,150</u>	<u>23,406</u>
	<u>\$ 25,902,925</u>	<u>\$ 24,367,894</u>	<u>(\$ 1,535,031)</u>
	2000		
	Cost	Market Value	Unrealized Gains (Losses)
Money market funds	\$ 338,352	\$ 338,352	\$ 0
Equities	17,280,158	17,894,899	614,741
Government obligations	7,731,342	7,863,216	131,874
Corporate bonds	<u>1,472,579</u>	<u>1,470,421</u>	<u>(2,158)</u>
	<u>\$ 26,822,431</u>	<u>\$ 27,566,888</u>	<u>\$ 744,457</u>

Subsequent to June 30, 2001 and as of September 30, 2001, the Foundation's investments experienced a significant decrease in value. From June 30, 2001 to September 30, 2001, the unrealized loss on investments increased from approximately \$ 1,535,000 to \$ 3,232,000. Management expects this to be a temporary decline in value due to the recent economic downturn.

Note 4. Accounts Receivable

Current unrestricted other receivables include \$ 430,087 (2001) and \$ 615,969 (2000) in vendor credit memos related to the bookstore.

Note 5. Bonds Payable

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

	2001	2000
1991 D, issued \$ 11,195,000 in May 1991; 6.40% - 6.75%; interest and principal payable semi-annually through April 1, 2011	\$ 1,700,000	\$ 2,200,000
1995 C, issued \$ 5,810,000 in June 1995; at 4.65% - 5.6%; interest and principal payable semi-annually through April 1, 2011	4,060,000	4,370,000
1995 D, issued \$ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011	12,430,000	13,215,000
1998 N, issued \$ 14,690,000 in September 1998 at 3.70% - 4.15%; interest payable semi-annually and principal payable annually through April 2005	<u>2,440,000</u>	<u>3,240,000</u>
Total bonds payable	<u>\$ 20,630,000</u>	<u>\$ 23,025,000</u>

Note 5. Bonds Payable (Continued)

Under an agreement with the Commonwealth of Pennsylvania, 50% 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	College Share	State Share	Total
2002	\$ 1,255,000	\$ 1,255,000	\$ 2,510,000
2003	1,320,000	1,320,000	2,640,000
2004	1,112,500	1,112,500	2,225,000
2005	1,170,000	1,170,000	2,340,000
2006	1,032,500	1,032,500	2,065,000
Thereafter	<u>4,425,000</u>	<u>4,425,000</u>	<u>8,850,000</u>
	<u>\$ 10,315,000</u>	<u>\$ 10,315,000</u>	<u>\$ 20,630,000</u>

Note 6. Note Payable

The general obligation note payable to the State Public School Building Authority (SPSBA) dated May 1, 2001 has an interest rate of 4.75% and a maturity date of May 1, 2006. Interest and principal are payable semi-annually beginning November 1, 2001.

The scheduled payments are as follows:

2002	\$ 581,363
2003	609,306
2004	638,592
2005	669,285
2006	<u>701,454</u>
	<u>\$ 3,200,000</u>

These monies were borrowed in May 2001 to purchase equipment for the new Lancaster Campus building. At June 30, 2001, \$ 2,160,089 was still available to be drawn down, and is reflected as a receivable ("Due from SPSBA").

Note 7. 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 over the advances from the Commonwealth. The following table presents outstanding amounts due to the Commonwealth by fiscal year:

	2001	2000
1992 – 1993	(\$ 231)	\$ 9,144
1993 – 1994	132,468	170,316
1994 – 1995/1995 – 1996	64,394	107,330
1996 – 1997	0	20,305
1997 – 1998	35,347	0
1999 – 2000	0	1,006,242
2000 – 2001	<u>32,342</u>	<u>0</u>
	<u>\$ 264,320</u>	<u>\$ 1,313,337</u>

Note 7. Due to the Commonwealth of Pennsylvania (Continued)

Amounts due to the Commonwealth are shown on the balance sheets as follows:

	2001	2000
Unrestricted fund	\$ 263,689	\$ 1,313,314
Plant funds	<u>631</u>	<u>23</u>
	<u>\$ 264,320</u>	<u>\$ 1,313,337</u>

To facilitate the repayment of the amounts due to the Commonwealth relating to the 1993-94, 1994-95, and 1995-96 liabilities, the College has agreed to quarterly payments of \$ 20,194. Required payments as of June 30, 2001 are as follows:

Year Ending June 30	2001
2002	\$ 80,776
2003	59,314
2004	37,848
2005	<u>18,924</u>
Total	<u>\$ 196,862</u>

Under the terms of the Commonwealth reimbursement agreement, periodic audits are required and certain advances may be questioned as not being appropriate under the terms of the agreement. Such audits could lead to reimbursement of the advances to the Commonwealth. College management believes that reimbursements, if any, will be immaterial.

Note 8. Leases

The College has entered into noncancelable operating leases for certain office space and equipment. Future minimum lease payments in the aggregate for the next five years are as follows:

2002	\$ 2,503,164
2003	2,451,451
2004	2,133,371
2005	1,788,954
2006	<u>1,788,017</u>
Total minimum lease payments	<u>\$ 10,664,957</u>

The total rent for the year ended June 30 was \$ 729,489 (2001) and \$ 1,059,207 (2000).

Note 9. 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.

Note 9. Risk Management

The College is self-insured for dental losses. The liability for claims at June 30 represents three months (2001) and two months (2000) of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2001	2000
Beginning Balance	\$ 41,720	\$ 30,627
Claims made/Changes in estimates	289,281	232,676
Claims paid	<u>264,801</u>	<u>221,583</u>
Ending Balance	<u>\$ 66,200</u>	<u>\$ 41,720</u>

The college is insured for health costs through a retrospectively rated policy. A reserve of \$ 314,305 has been established for anticipated future liabilities, which are based on past experience.

Note 10. 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. Members joining the PSERS on or after July 22, 1983 contribute at a rate of 6.25 percent. The contribution rate for the College is an actuarially determined rate. The current rate at June 30, 2001 is .97 and at June 30, 2000 is 2.31 percent of annual covered payroll. The College's contributions to PSERS for the years ended June 30, 2001, 2000, and 1999 were \$ 16,870, \$ 37,430, and \$ 51,821, 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. Active members contribute at a rate of 5 percent of their qualifying compensation. The contribution rate for the College is an actuarially determined rate. The rate at June 30, 2001 is .61 and at June 30, 2000 is 4.02 percent of annual covered payroll. The College's contributions to SERS for the years ended June 30, 2001, 2000, and 1999 were \$ 12,111, \$ 83,850, and \$ 107,627, 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.

Note 10. Pension Benefits (Continued)

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a rate of 5 percent of their qualifying compensation; the College's contribution rate for the years ended June 30, 2001 and 2000 was 10 percent of qualifying compensation. In addition, employees of greater than 5 years may contribute to TIAA-CREF through the Supplemental Retirement Annuity. TIAA-CREF determines yearly limits on contributions for each individual employee. The college matches 50% of the employees' contributions. The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2001	2000
College	\$ 2,206,913	\$ 2,139,206
Employee	1,819,188	1,771,453

Note 11. Depreciation

Depreciation is recorded over the estimated useful lives of the assets as follows:

Buildings	40 years
Improvements	20 years
Equipment and furnishings	3 to 10 years

The classifications of fixed assets for the years ended June 30 are as follows:

	2001		
	Actual or Estimated Cost	Current Depreciation	Accumulated Depreciation
Land and land improvements	\$ 2,165,823	\$ 26,038	\$ 33,978
Buildings and improvements	61,998,912	1,857,129	16,176,927
Equipment and furnishings	19,355,953	1,454,088	9,211,811
	<u>\$ 83,520,688</u>	<u>\$ 3,337,255</u>	<u>\$ 25,422,716</u>
	2000		
	Actual or Estimated Cost	Current Depreciation	Accumulated Depreciation
Land and land improvements	\$ 1,977,677	\$ 7,940	\$ 7,940
Buildings and improvements	61,192,300	1,955,736	14,321,850
Equipment and furnishings	16,051,127	1,485,924	8,176,245
	<u>\$ 79,221,104</u>	<u>\$ 3,449,600</u>	<u>\$ 22,506,035</u>

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.

In December of 1998, the State Employees' Retirement System (SERS) requested that Harrisburg Area Community College (HACC) advise its adjunct faculty employees of their rights to choose participation in SERS (interpretation made by SERS) as an alternative to participation in the Public School Employees' Retirement System and the independent retirement program (TIAA/CREF) offered by HACC. In February 1999, HACC advised SERS that it disagreed with SERS' request regarding the eligibility of HACC's adjunct faculty members to participate in SERS. Since then, SERS has narrowed its focus to two members of HACC's adjunct faculty. On April 30, 2001, the Hearing Examiner issued a Report and Recommendation in HACC's favor, finding that the two employees were not eligible to participate in SERS and that HACC was not required to forward contributions to SERS for them. The head of the SERS agency can either accept that Report as the final decision of the agency or reject it and write his own opinion. Before the agency head makes this decision, any party wishing to appeal the decision in the proposed report has an opportunity to file exceptions to the report. These "exceptions" would simply argue that the hearing officer's decision is wrong about certain factual findings or conclusions of law. HACC has been informed that SERS will indeed file exceptions to the hearing Examiner's Recommendation. After those are filed, HACC then may file a responsive brief. Oral argument may also occur. At this point, it is impossible to accurately predict how this matter will be resolved. HACC believes that it has a strong position with respect to this issue. If the ultimate decision is adverse to HACC and if the decision is broadened to cover all adjunct faculty members, the resulting cost to HACC may have a material impact on the financial statements.

As a result of the compliance testing performed as part of the College's single audit, questioned costs of \$ 221,484 (2001) and \$ 289,163 (2000) were identified. These questioned costs have been reported to the federal awarding agency, but it is uncertain if any of these funds will be required to be returned.

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

Commitments

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:

2002	\$ 175,207
2003	178,467
2004	166,091
2005	106,166
2006	41,704
2007 and after	<u>100,658</u>
Total	<u>\$ 768,293</u>

Note 12. Contingencies and Commitments (Continued)

The estimated ERSIP liability is discounted at a rate of 5.0% and is \$ 664,055 and \$ 787,918 at June 30, 2001 and 2000, respectively. This is included in accrued liabilities on the balance sheet.

Note 13. Prior Period Adjustment

A prior period adjustment was necessary to correctly record a liability for the Early Retirement Stipend Incentive Plan (ERSIP) described in Note 12. As a result of this adjustment, the following changes were required to the June 30, 2000 financial statements for the current funds – unrestricted:

	<u>As Originally Reported</u>	<u>Change</u>	<u>As Restated</u>
Accrued liabilities	\$ 3,306,877	\$ 787,919	\$ 4,094,796
Beginning fund balance (7/1/99)	4,939,491	(803,247)	4,136,244
Ending fund balance (6/30/00)	5,279,728	(787,919)	4,491,809
Education and general expense	46,993,170	(15,328)	46,977,842
Net revenues over expenditures	340,237	15,328	355,565

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2001

	HACC Foundation	Wildwood Conference Center Foundation	Totals
ASSETS			
Cash and cash equivalents	\$ 190,410	(\$ 1,453,192)	(\$ 1,262,782)
Investments	24,367,894	0	24,367,894
Accounts receivable	0	11,932	11,932
Contributions receivable	358,941	0	358,941
Accrued interest receivable	<u>85,305</u>	<u>0</u>	<u>85,305</u>
	<u>\$ 25,002,550</u>	<u>(\$ 1,441,260)</u>	<u>\$ 23,561,290</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 0	\$ 30,142	\$ 30,142
Due to other funds	8,855	0	8,855
Fund balances (deficit):			
Unrestricted	11,293,542	(1,471,402)	9,822,140
Unrestricted - board designated	9,963	0	9,963
Temporarily restricted	2,593,279	0	2,593,279
Permanently restricted	<u>11,096,911</u>	<u>0</u>	<u>11,096,911</u>
	<u>\$ 25,002,550</u>	<u>(\$ 1,441,260)</u>	<u>\$ 23,561,290</u>
Revenues and other additions:			
Sales and services	\$ 0	\$ 802,221	\$ 802,221
Private gifts, grants, and contracts	839,726	0	839,726
Investment income	696,069	0	696,069
Realized and unrealized gains(losses) on investments:	<u>(2,202,738)</u>	<u>0</u>	<u>(2,202,738)</u>
Total revenue and other additions	<u>(666,943)</u>	<u>802,221</u>	<u>135,278</u>
Expenditures and other deductions:			
Auxiliary enterprises	0	828,658	828,658
Program services	1,210,407	0	1,210,407
Supporting services	<u>261,000</u>	<u>0</u>	<u>261,000</u>
Total expenditures and other deductions	<u>1,471,407</u>	<u>828,658</u>	<u>2,300,065</u>
Transfers among funds - additions (deductions):			
Non-mandatory	<u>0</u>	<u>(70,000)</u>	<u>(70,000)</u>
Net increase (decrease)	<u>(2,138,350)</u>	<u>(96,437)</u>	<u>(2,234,787)</u>
Fund balance at July 1, 2000	<u>27,132,045</u>	<u>(1,374,965)</u>	<u>25,757,080</u>
Fund balance at June 30, 2001	<u>\$ 24,993,695</u>	<u>(\$ 1,471,402)</u>	<u>\$ 23,522,293</u>

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2000

	HACC Foundation	Wildwood Conference Center Foundation	Totals
ASSETS			
Cash and cash equivalents	\$ 18,023	(\$ 1,362,473)	(\$ 1,344,450)
Investments	27,566,888	0	27,566,888
Accounts receivable	0	4,117	4,117
Pledges receivable	285,781	0	285,781
Accrued interest receivable	128,697	0	128,697
Prepaid expenses	0	250	250
	<u>\$ 27,999,389</u>	<u>(\$ 1,358,106)</u>	<u>\$ 26,641,283</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 0	\$ 16,859	\$ 16,859
Due to HACC	867,344	0	867,344
Fund balances (deficit):			
Unrestricted	12,952,932	(1,374,965)	11,577,967
Temporarily restricted	2,466,853	0	2,466,853
Permanently restricted	11,712,260	0	11,712,260
	<u>\$ 27,999,389</u>	<u>(\$ 1,358,106)</u>	<u>\$ 26,641,283</u>
Revenues and other additions:			
Sales and services	\$ 0	\$ 885,111	\$ 885,111
Private gifts, grants, and contracts	693,927	0	693,927
Investment income	721,074	0	721,074
Realized and unrealized gains on investments	1,055,953	0	1,055,953
Total revenue and other additions	<u>2,470,954</u>	<u>885,111</u>	<u>3,356,065</u>
Expenditures and other deductions:			
Auxiliary enterprises	0	906,845	906,845
Program services	1,907,064	0	1,907,064
Supporting services	287,566	0	287,566
Total expenditures and other deductions	<u>2,194,630</u>	<u>906,845</u>	<u>3,101,475</u>
Transfers among funds - additions (deductions):			
Non-mandatory	0	(69,541)	(69,541)
Net increase (decrease)	276,324	(91,275)	185,049
Fund balance at July 1, 1999	<u>26,855,721</u>	<u>(1,283,690)</u>	<u>25,572,031</u>
Fund balance at June 30, 2000	<u>\$ 27,132,045</u>	<u>(\$ 1,374,965)</u>	<u>\$ 25,757,080</u>

HARRISBURG AREA COMMUNITY COLLEGE

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2001**

Federal Grantor/pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	
Department of Education:			
Student Financial Aid:			
FSEOG Program	84.007	N/A	\$ 267,450
FWS Program	84.033	N/A	222,232
PELL Program	84.063	N/A	3,721,788
Perkins Program	84.038	N/A	<u>3,404</u>
Total student financial aid			4,214,874
Other Federal Assistance (passed through Pennsylvania Department of Education):			
AmeriCorp	94.006	N/A	9,305
Adult Basic Education	84.002	N/A	20,620
National Science Foundation	47.076	N/A	8,181
Vocational Educational Grants			
Perkins III	84.048	N/A	415,111
Title III-E Tech Prep Education	84.243	N/A	340,827
Library Service & Tech Grant	45.310	N/A	<u>249,648</u>
Total Department of Education			<u>5,258,566</u>
Department of Agriculture (pass through Pennsylvania Department of Public Welfare):			
Transitions	10.561	N/A	5,112
Community Solutions/Job Retention Welfare Grant	93.558	N/A	<u>68,373</u>
Total Department of Agriculture			<u>73,485</u>
Department of Labor:			
Employment and Training Assistance – Dislocated workers (passed through Pennsylvania Department of Labor and Industry)	17.246	N/A	41,602
Transitions program (passed through PA Department of Public Welfare)	17.250	N/A	<u>4,475</u>
Total Department of Labor			<u>46,077</u>
National Endowment for the Humanities:			
Pennsylvania German Heritage (passed through Pennsylvania Humanities Council)	45.129	N/A	<u>1,500</u>
Total federal financial assistance			<u>\$ 5,379,628</u>

HARRISBURG AREA COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. General Information

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

Note 2. Relationship to Basic Financial Statements

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the College. It is not intended to, and does not, present either the financial position, changes in activities, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's combined statement of activities. 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 Loan Programs

The College administers the following federal loan program:

	CFDA Number	Outstanding Balance at June 30, 2001
Perkins Loan Program	84.038	\$ 151,624

Total loan expenditures and disbursements of the Department of Education's student financial assistance program for the year ended June 30, 2001 are identified below:

	CFDA Number	Disbursements
Perkins Loan Program	84.038	\$ 39,128 New Loans 3,404 Expenses <u>\$ 42,532</u>

The above disbursements of the Department of Education's student financial assistance program include expenditures and disbursements such as loans to students and administrative expenditures. The Schedule only includes administrative costs of the loan program.

Note 4. Federal Family Education Loan Program

During the year ended June 30, 2001, the College processed the following amount of new loans under the Federal Family Education Loan Program (which includes Federal Stafford Loans and Federal Plus Loans):

	CFDA Number	
Federal Stafford and Federal Plus Loans	84.032	\$ 8,284,748

Note 5. Basis of Presentation

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

Note 6. 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.



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

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the financial statements of the Harrisburg Area Community College as of and for the year ended June 30, 2001, and have issued our report thereon dated October 8, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Harrisburg Area Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2001-4 and 2001-5. We also noted certain immaterial instances of noncompliance that we have reported to management of Harrisburg Area Community College in a separate letter dated October 8, 2001 and as item 2001-6 in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harrisburg Area Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Harrisburg Area Community College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-1, 2001-2 and 2001-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all



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Board of Trustees
Harrisburg Area Community College

reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described as items 2001-1, 2001-2, and 2001-3 are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Harrisburg Area Community College in a separate letter dated October 8, 2001.

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 8, 2001



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**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, 2001. 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.

As described in items 2001-4 and 2001-5 in the accompanying schedule of findings and questioned costs, the Harrisburg Area Community College did not comply with requirements regarding activities allowed or unallowed and allowable costs that are applicable to its Perkins III Vocational Education and Title III-E Tech Prep. Education Programs. Compliance with such requirements is necessary, in our opinion, for the Harrisburg Area Community College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Harrisburg Area Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2001-6.



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Board of Trustees
Harrisburg Area Community College

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Harrisburg Area Community College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-4 and 2001-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition identified as 2001-4 described above is a material weakness.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 8, 2001

HARRISBURG AREA COMMUNITY COLLEGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2000**

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? | <u> X </u> yes | <u> </u> no |
| Reportable condition(s) identified not considered
to be material weaknesses? | <u> </u> yes | None
<u> X </u> reported |
| (iii) Noncompliance material to financial statements noted? | <u> X </u> yes | <u> </u> no |

Federal Awards:

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

CFDA Number(s)

Name of Federal Program or Cluster

84.007
84.063
84.033
84.038

84.048
84.243

Student Financial Aid:
FSEOG Program
PELL Program
FWS Program
Perkins Program
Other Programs:
Perkins III Vocational Education
Title III-E Tech Prep Education

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

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

Part II

Financial Statement Findings Section:

Reference Number	Finding	Questioned Costs
2001-1 - Financial Oversight		\$ 0
Condition:	Accounts receivable balances and property and equipment were not reconciled to the general ledger on an ongoing basis during the year, and were significantly out of balance at June 30, 2001. In addition, the travel advance account had not been reconciled.	
Criteria:	Good internal controls include systematic reconciliations and approvals, and prompt correcting entries as necessary in order to provide proper management and maintain accountability to funding sources.	
Cause:	This is a carryover of a problem identified in the prior audit that did not get fully corrected. In addition, the system erroneously deletes assets from the depreciation schedules when they become fully depreciated.	
Effect:	Year end reconciliations were incorrect and had to be re-done. Also, the final accounts receivable reconciliation resulted in an unlocated difference of approximately \$ 41,000, while the depreciation schedules did not balance to the general ledger by approximately \$ 236,000.	
Recommendation:	Responsibilities for preparing and approving reconciliations of major general ledger accounts to detailed records must be clearly delineated and staff held accountable for performance. A concerted effort should be made to identify and correct the difference, and discrepancies in future reconciliations should be dealt with on a timely basis. These reconciliations should be performed at least monthly.	
HACC'S Response:	Responsibilities for preparing and approving account reconciliations have been clearly delineated to staff. Vacant positions resulted in certain account reconciliations not being maintained on a current basis. These positions have been filled and reconciling differences are being pursued. Supplemental reports are being developed to assist with reconciliation preparation. The automation of these items will assist in streamlining the reconciliation process.	

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

Reference Number	Finding	Questioned Costs
2001- 2 - Cash Receipts		\$0
Condition:	A check for \$55,840 was received by the accounts payable department for a bookstore credit and held for over two months Without being deposited.	
Criteria:	Receipts should be deposited timely.	
Cause:	Oversight by the accounts payable department.	
Effect:	Cash flow and interest income were negatively impacted.	
Recommendation:	Personnel should be instructed to forward checks received to the appropriate personnel for timely deposit.	
HACC's Response:	As soon as this issue was discovered, HACC accounting staff took corrective action by getting the check deposited immediately. Procedures regarding incoming checks were reviewed with Business Office staff.	

2001-3 - Manual Journal Entries

Condition:	A manual journal entry was done to record an accrued expense for equipment at year end in the amount of approximately \$169,000. This was not picked up by the system on the depreciation schedules.
Criteria:	All depreciable property must be included on the depreciation schedule to accurately report fixed assets.
Cause:	The system automatically records these assets on depreciation schedules if handled through normal channels. However, this is not true for manual journal entries.
Effect:	Had this gone undetected, assets and depreciation would have been understated, presumably forever.
Recommendation:	Be alert to the need to add such items to the depreciation schedules in the future. Also, be sure that the system does not pick up these assets when the accrual is reversed (which is possible, depending on how the reversal takes place), thus duplicating the entry to the depreciation schedule.
HACC's Response:	The cause specified is a Banner fixed asset module shortcoming. Stricter internal controls, development of supplemental reports, and an overall better understanding of the Banner fixed asset system are being addressed to ensure proper accounting takes place in the future.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

Part III

Federal Award Findings and Questioned Costs:

Reference Number	Finding	Questioned Costs
<i>2001-4 – Federal Program Salary and Benefit Allocations</i>		Vocational Ed (CFDA #84.048) \$ 173,493 Tech Prep Ed (CFDA #84.243) <u>24,505</u> <u>\$ 197,998</u>

Condition/Cause: Documentation did not exist to support allocations of salaries and benefits to the Vocational Education and Tech Prep Education grants. Vocational Education employees served the entire student population, but did not document time specifically spent serving vocational education students. The Tech Prep Education program coordinator could not locate her time and effort records.

Criteria: OMB Circular A-21 stipulates that costs are allocable to a Federal program if they are incurred solely to advance the work of the federal program or if they benefit multiple programs and are allocated based on proportionate benefits received by the programs. Allocation methods must be documented and represent an after the fact distribution of actual costs incurred.

Effect: The questioned costs identify 100% of unsupported salaries and benefits, plus appropriate indirect charges thereon.

Recommendation: Tech Prep Education – Maintain time sheets to support hours worked on this program that equal or exceed payroll charges to the program.

Vocational Education – Devise a method to track the number of eligible students served, or the time spent serving eligible students, so that payroll allocations can be supported.

HACC'S Response: Tech Prep Education – The Grant Manager has put in place a system of reporting time and effort for all staff budgeted to the Tech Prep project. Project managers have been trained in the use of this system, and periodic reminders and collection of data have been built into the calendar. Better reporting should result.

Vocational Education – The grant managers are meeting to devise a system of tracking eligible students served without violating privacy rights. The time and effort system implemented for Tech Prep will be duplicated for the Perkins Vocational Project. Included will be data tracking devices to correlate student tracking and staff time and effort. Better reporting should result.

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

Federal Award Findings and Questioned Costs (Continued):

Reference Number	Finding	Questioned Costs
<i>2001-5 – Expenditures not obligated timely</i>		Vocational Ed (#84.048) <u>\$ 23,486</u>
Condition/Cause:	Purchase orders for equipment were not signed until July 2001.	
Criteria:	According to program guidelines, obligations for the program cannot be incurred after June 30 of each fiscal year. Obligations for acquisition of personal property are considered to have occurred when “the sub-grantee makes a binding written commitment to obtain the property”.	
Effect:	See questioned costs.	
Recommendation:	Expenditures need to be more closely monitored to assure they are obligated in accordance with guidelines.	
HACC's Response:	Staff will be more cognizant of grant guidelines and will take a proactive approach to submit purchase orders and obtain appropriate approvals earlier in the grant year.	

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended June 30, 2001

Reference Number	Finding	Questioned Costs
2001-6 – Student Financial Aid		\$ 0
Condition:	<p>Student financial aid transactions were reviewed and the following instances of noncompliance were identified:</p> <p>A) Out of 25 student files tested:</p> <ul style="list-style-type: none">• 1 award exceeded PELL maximum limit by \$ 251.• 1 Stafford loan was not disbursed timely to a student account. <p>B) Out of 15 Stafford loan returns to lenders:</p> <ul style="list-style-type: none">• 6 were not done timely.• 9 were not in the proper amount (6 returned too much, 3 did not return enough).	
Criteria:	<p>Federal guidelines restrict the amount of aid granted to students as well as the timing of disbursements to students and refunds to lenders.</p>	
Cause:	<p>Oversight issues apparently related to staff turnover problems and lack of experienced personnel in the financial aid department.</p>	
Effect:	<p>Unknown.</p>	
Recommendation:	<p>Greater care be taken to be sure similar noncompliance issues do not recur.</p>	
HACC's Response:	<p>The Financial Aid Services Office has taken several major steps to address problems related to audit exceptions. First, Financial Aid Services (of Atlanta, GA) has been selected as a servicer for the College's Stafford and Plus loans. FAS employs experienced loan processors who are handling the transmission of files to and from PHEAA, making loan adjustments and corrections, and transferring disbursements files to the College.</p> <p>Since the previous audit, the College has hired a new director, two new administrative specialists and a technical support specialist in the Financial Aid Office. Recognizing that training new staff is vital and an ongoing process, the College has had two consultants from SCT to train on Financial Aid and the Banner system. In addition, FAS has assigned a project manager to work with the director and help train the staff. The consultant has worked with the staff to complete the annual FISAP report, Pell reconciliation and organizing financial aid for clock hour programs. The consultant has many years of experience working as an interim director for schools in transition.</p>	

HARRISBURG AREA COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

Reference Number	Finding	Questioned Costs
	Matters noted at June 30, 2000.	
2000-1	There was a general lack of oversight over reconciliations of accounts during 1999/2000. STATUS: This area was much improved in 2000/01, except for the accounts receivable reconciliation matters noted in Finding 2001-01.	\$ 0
2000-2	Bookstore inventory was not properly valued. STATUS: This was corrected in 2000/01.	\$ 0
2000-3	Gifts-in-Kind are not recorded on the general ledger. STATUS: This was corrected in 2000/01.	\$ 0
2000-4	Documentation did not exist to support allocations of salaries and benefits to the Vocational Education and Tech Prep Education grants. Vocational Education employees served the entire student population, but did not document time specifically spent serving vocational education students. The Tech Prep Education program was new and record-keeping requirements were not completely understood. STATUS: No change – see finding 2001-4.	\$ 270,611
2000-5	Equipment items greater than \$ 1,500 per unit were purchased by sub-recipient school districts, but reported erroneously as supplies to the PA Dept. of Education. However, the contract budget did not authorize equipment expenditures and no budget revisions were done. STATUS: No such findings in 2000/01.	\$ 18,552
2000-6	Student financial aid transactions were reviewed and several instances of noncompliance were identified. STATUS: No change – see finding 2001-6.	



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

October 8, 2001

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

Dear Ladies and Gentlemen:

We have completed our audit of the financial statements of Harrisburg Area Community College for the year ended June 30, 2001, and have issued our report thereon dated October 8, 2001.

We believe part of our responsibility, as your independent certified public accountants, is to bring to your attention matters for your consideration which may impact the operations of the College. The following comments and suggestions cover such matters.

EDP Security

As an added service, we engaged Metro IT Solutions to review the overall security of HACC's computer systems and update the issues identified in last year's report. HACC's security level is average, but generally adequate. Although written procedures are not documented, some informal policies are in place. The following observations and/or suggestions are intended for your consideration:

- ⇒ The only data that passes over the link to the Citrix Metaframe server, either via Internet access or modem connections, is keyboard and video data. Basic encryption is utilized and is usually sufficient, although a higher encryption level is recommended.
- ⇒ The Novell servers are used for file and print services. The users are only allowed to view files/documents that they have specific rights to view. They can only write or store files in folders/directories that they have rights to access. This security is sufficient and properly implemented.



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Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

- ⇒ Overall login/password security, while not perfect, is sufficient and manageable.
- ⇒ The only intruder detection implemented at this time is the login/password intruder detection in the network operating systems. It would be highly recommended to budget and plan to implement an Intruder Detection System running on a separate server to monitor the HACC network for possible hacking from both internal and external sources. Some commercial IDS products are Dragon IDS, Cisco IDS, and Internet Security Systems. These systems reside on the network and constantly monitor for intruders by using signature files similar to virus detection software. These systems provide an audit trail log of any suspicious activity and block access from suspected hacking of the network services. Although Novell Netware provides a full line of auditing features in its Operating System, they tend to degrade the performance of the servers when enabled. This negative impact on performance justifies the utilization of a separate server with Intruder Detection software installed.
- ⇒ The present firewall is Guardian by LanOptics running on an NT server. This firewall is performing Network Address Translation and using rules-based filtering for selected ports and locations. These rules explicitly deny and/or allow access to specific services. Some sites are presently blocked at the firewall, i.e. Napster, etc. Other rules allow specific access to the mail server, web server and other necessary resources on specific ports. Plans are to replace this firewall product with a Cisco PIX when the network is upgraded to Ethernet.



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Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

- ⇒ All the Novell Servers and workstations are protected from viruses by F-Prot virus scanning and detection software. Signatures are now downloaded daily and pushed from the servers to the workstations to keep new viruses under control. The NT servers are not presently running virus software but are kept patched with Microsoft's latest security patches. Virus protection should be implemented on the Microsoft NT servers as they are highly susceptible to infections that spread rapidly, like Code-Red, Nimba and SirCam.
- ⇒ Full tape backups are performed weekly and the tapes for Wildwood Campus are stored on the Lebanon Campus. All dynamic data is backed up nightly along with critical operating system files and kept on-site to allow file restoration from the previous day.

Student Financial Aid (Update from Prior Year)

- (1) The Student Financial Aid office has been in transition for the past year or so due to personnel changes. We understand there are options being evaluated to address concerns related to the department, and urge management to continue to monitor this situation closely.
- (2) In reviewing the final FISAP report completed by the Financial Aid department, we again noted numerous discrepancies between the totals and the general ledger balances. We recommend that FISAP preparation be reviewed by a second person and reconciled to the general ledger in the future to ensure accuracy.

Federal Programs

As part of the college's single audit, we performed detailed internal control and compliance testing on the Perkins Vo-Tech and Tech Prep programs. As a result, we have the following observations:



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Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

(1) The guidelines for both programs require budget transfers when a budget category is exceeded by 10%. This occurred in each program, but neither filed for the necessary budget transfer approval.

(2) Each program fell short of spending the full amount of the grant, as follows:

	<u>Perkins Vo-Tech</u>	<u>Tech Prep</u>
Amount approved	\$ 428,645	\$ 366,480
Amount spent	<u>415,247</u>	<u>316,490</u>
Available funds not utilized	<u>\$ 13,398</u>	<u>\$ 49,990</u>

In addition, \$50,200 of funds were not utilized for the Community Solutions grant, and had to be returned.

We believe this situation should be evaluated to determine the reasons for not utilizing all available resources and, if possible, taking corrective action to eliminate this from occurring in the future.

Cash Transfers

A transfer of \$ 19,000 from the general operating account to the Agency account has been necessary since March 2, 2001, but has still not occurred as of the date of this letter. It therefore is a reconciling item in the bank reconciliations for both accounts. We suggest this transfer, and any similar transfers needed in the future, be made on a timely basis.

Accounts Receivable

In our review of the accounts receivable, we noted that \$ 1,003,834 out of total receivables of \$ 2,736,010, or 36.7%, are over 120 days past due. We believe part of this probably is due to how the



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Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

BANNER system is used between invoicing and collection, as a different level of detail is entered into the system. Consequently, follow-up statements only highlight current charges, so vendors do not pay past due amounts. We suggest this situation be addressed in order to enhance cash flow.

New Accounting Pronouncements

GASB 34/35 Implementation - The 2002/03 fiscal year is the year in which GASB 34/35 implementation will be required. In order to properly implement these new statements, any changes related to assets and liabilities will have to be done by June 30, 2002 in order to allow for proper reporting of activity to occur in the 2002/03 fiscal year. While your staff has received some training on this new standard, we are unaware of any formal planning that has taken place to make this transition. It is imperative that evaluations of potential changes and a general master plan be developed so that all issues are addressed before July 1, 2002. This will require an open line of communications between us and HACC's business office. We also believe that modifying the June 30, 2001 financial statements into a GASB 34/35 format would be very beneficial in identifying areas that will need addressed. We suggest a joint planning meeting be considered in the next few months to begin this very important process.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

We acknowledge and appreciate the courtesy and assistance extended to our representatives by the College's personnel during our audit. We will be pleased to further discuss these comments and recommendations at your convenience.

Smith Elliott Kearns & Company, LLC