

**HARRISBURG AREA
COMMUNITY COLLEGE**

ANNUAL
FINANCIAL
REPORT

JUNE 30, 2002

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HARRISBURG AREA COMMUNITY COLLEGE

LIST OF REPORT DISTRIBUTION

JUNE 30, 2002

- 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
- 1 Report - State Public School Building Authority
P. O. Box 990
Camp Hill, PA 17001



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, 2002 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 separate management letter for the fiscal year ended June 30, 2002.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 1, 2002



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 June 30, 2002 and 2001, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the years then ended. 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, 2002 and 2001, and the changes in its fund balances, and its current fund revenues, expenditures, and other changes 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 1, 2002 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 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 1, 2002

HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2002 and 2001

		LIABILITIES AND FUND BALANCES		
ASSETS		2002	2001	2001
Current funds:				
Unrestricted:				
Cash and equity in pooled cash and investments		\$ 10,918,175	\$ 10,401,934	\$ 1,280,609
Accounts receivable:				4,235,542
Tuition and fees, net of allowance of				2,338,717
\$200,000 in 2002 and \$150,000 in 2001		4,763,156	2,695,760	89,331
Other		755,987	564,603	246,767
Intergovernmental receivables		1,335,673	700	0
Inventories		646,498	511,942	10,710,640
Prepaid expenses and deferred charges		498,438	65,303	<u>150,000</u>
Due from other funds		<u>133,679</u>	<u>8,855</u>	0
		\$ <u>19,051,606</u>	\$ <u>14,249,097</u>	\$ <u>19,051,606</u>
	Total unrestricted			\$ <u>14,249,097</u>
Restricted:				
Cash and equity in pooled cash and investments		(\$ 199,317)	\$ 281,867	\$ 859,733
Intergovernmental receivables		1,210,534	407,503	153,299
Other		<u>1,815</u>	<u>2,631</u>	<u>278,306</u>
		\$ <u>1,013,032</u>	\$ <u>692,001</u>	\$ <u>1,013,032</u>
	Total restricted			\$ <u>692,001</u>
	Total current funds	\$ <u>20,064,638</u>	\$ <u>14,941,098</u>	\$ <u>20,064,638</u>
	Total current funds			\$ <u>14,941,098</u>

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

HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2002 and 2001

	2002	2001	LIABILITIES AND FUND BALANCES	
ASSETS			2002	2001
Plant funds:				
Cash and equity in pooled cash and investments	\$ 2,595,747	\$ 4,187,030		
Accounts receivable	5,000	21,400		
Due from SPSBA	0	2,160,089		
Accrued interest receivable	8,161	15,900		
Prepaid expenses	130,927	0		
Land	1,639,470	1,639,470		
Land improvements	733,980	526,353		
Buildings	50,681,493	50,568,393		
Building improvements	12,407,538	11,430,519		
Leasehold improvements	1,922,706	1,061,056		
Equipment	20,135,977	18,294,897		
Accumulated depreciation	(28,097,143)	(25,422,716)		
Property, plant, and equipment, net	59,424,021	58,097,972		
Bond discount and issuance costs, net	115,810	141,465		
Total plant funds	<u>\$ 62,279,666</u>	<u>\$ 64,623,856</u>	<u>\$ 62,279,666</u>	<u>\$ 64,623,856</u>
			Total plant funds	

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

HARRISBURG AREA COMMUNITY COLLEGE
BALANCE SHEETS
June 30, 2002 and 2001

ASSETS

	2002	2001	LIABILITIES AND FUND BALANCES	
			2002	2001
Agency funds:				
Cash and equity in pooled cash and investments	\$ 287,229	\$ 255,786	\$ 6,662	\$ 16,399
Contributions receivable	<u>4,223</u>	<u>2,715</u>	<u>284,790</u>	<u>242,102</u>
Total agency funds	<u>\$ 291,452</u>	<u>\$ 258,501</u>	<u>\$ 291,452</u>	<u>\$ 258,501</u>
Special revenue funds:				
Cash and equity in pooled cash and investments	(\$ 1,461,553)	(\$ 1,262,782)	\$ 15,542	\$ 30,142
Investments	21,948,546	24,367,894	131,344	8,855
Accounts receivable	0	11,932		
Pledges receivable	692,973	358,941	7,963,993	9,822,140
Accrued interest receivable	64,087	85,305	9,598	9,963
Due from other funds	246,100	0	3,001,870	2,593,279
Prepaid expenses	<u>3,450</u>	<u>0</u>	<u>10,371,256</u>	<u>11,096,911</u>
Total special revenue funds	<u>\$ 21,493,603</u>	<u>\$ 23,561,290</u>	<u>\$ 21,493,603</u>	<u>\$ 23,561,290</u>
Loan funds:				
Cash and equity in pooled cash and investments	\$ 87,903	\$ 68,378	\$ 0	\$ 992
Notes and accounts receivable	<u>173,636</u>	<u>181,125</u>		
Total loan funds	<u>\$ 261,539</u>	<u>\$ 249,503</u>	<u>\$ 261,539</u>	<u>\$ 249,503</u>
			261,539	269,822
			<u>0</u>	<u>(21,311)</u>

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, 2002

	Current Funds		Plant Funds			Special Revenue Funds
	Unrestricted	Restricted	Loan Funds	Unexpended Plant	Retirement of Indebtedness	
Revenues and other additions:						
Unrestricted current fund revenues	\$ 65,480,821	\$ 0	\$ 0	\$ 1,397,345	\$ 0	\$ 858,154
State appropriations	0	0	0	108,605	1,657,242	0
Governmental grants and contracts	0	11,359,203	0	0	200,000	0
Private gifts, grants, and contracts	0	1,175,341	21,321	237,844	352,245	1,118,032
Investment income	0	0	880	181,540	0	601,035
Realized and unrealized gains(losses) on investments	0	0	0	(4,179)	0	(2,233,437)
Interest and fees on loans receivable	0	0	1,704	0	0	0
Expended for plant facilities	0	0	0	0	0	4,143,009
Retirement of indebtedness	0	0	0	0	0	3,155,594
Other	0	0	209	48,933	0	0
Total revenue and other additions	<u>65,480,821</u>	<u>12,534,544</u>	<u>24,114</u>	<u>1,970,088</u>	<u>2,209,487</u>	<u>7,426,778</u>
Expenditures and other deductions:						
Educational and general	54,540,296	12,534,544	0	0	0	0
Auxiliary enterprises	4,428,649	0	0	0	0	882,536
Program services	0	0	0	0	0	1,320,503
Supporting services	0	0	0	0	0	237,649
Administrative and collection costs	0	0	3,619	0	0	0
Cancellation of loans	0	0	7,467	0	0	0
Expended for plant facilities - net of assets purchased with bond proceeds - \$ 905,591	0	0	0	4,700,731	0	0
Retirement of indebtedness	0	0	0	0	3,155,594	0
Interest on indebtedness	0	0	0	0	1,163,469	0
Depreciation of plant and equipment	0	0	0	0	0	3,657,127
Disposal of plant and equipment	0	0	0	0	0	181,730
Amortization of bond discount and issuance costs	0	0	0	0	0	25,656
Total expenditures and other deductions	<u>58,968,945</u>	<u>12,534,544</u>	<u>11,086</u>	<u>4,700,731</u>	<u>4,319,063</u>	<u>3,864,513</u>
						<u>2,440,688</u>

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, 2002

	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	(2,131,810)	0	0	0	2,131,810	0
Non-mandatory	(305,697)	0	0	406,603	(22,234)	(78,672)
Total transfers	(2,437,507)	0	0	406,603	2,109,576	(78,672)
Net increase (decrease)	4,074,369	0	13,028	(2,324,040)	0	3,562,265
Fund balance at June 30, 2001	6,786,271	0	248,511	4,395,789	0	35,212,080
Fund balance at June 30, 2002	\$ 10,860,640	\$ 0	\$ 261,539	\$ 2,071,749	\$ 0	\$ 38,774,345
						23,522,293
						\$21,346,717

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			Net Investment in Plant	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	\$ 0	\$ 802,221
State appropriations	0	0	0	669,192	1,854,216	0	0
Governmental grants and contracts	0	8,802,302	0	433,339	200,000	0	0
Private gifts, grants, and contracts	0	718,214	0	183,955	352,245	87,659	839,726
Investment income	0	0	851	410,870	0	0	696,069
Realized and unrealized gains(losses) on investments	0	0	0	(17,637)	0	0	(2,202,738)
Interest and fees on loans receivable	0	0	3,156	0	0	0	0
Expended for plant facilities	0	0	0	0	0	2,534,130	0
Retirement of indebtedness	0	0	0	0	0	2,395,000	0
Other	0	0	0	7,261	0	0	0
Total revenue and other additions	55,743,331	9,520,516	4,007	2,976,373	2,406,461	5,016,789	135,278
Expenditures and other deductions:							
Educational and general	49,392,193	9,520,516	0	0	0	0	0
Auxiliary enterprises	3,544,613	0	0	0	0	0	828,658
Program services	0	0	0	0	0	0	1,210,407
Supporting services	0	0	0	0	0	0	261,000
Administrative and collection costs	0	0	5,492	0	0	0	0
Cancellation of loans	0	0	8,346	0	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	0
Retirement of indebtedness	0	0	0	0	2,395,000	0	0
Interest on indebtedness	0	0	0	0	1,197,178	0	0
Depreciation of plant and equipment	0	0	0	0	0	3,337,255	0
Disposal of plant and equipment	0	0	0	0	0	265,098	0
Amortization of bond discount and issuance costs	0	0	0	0	0	25,656	0
Total expenditures and other deductions	52,936,806	9,520,516	13,838	3,141,897	3,592,178	3,628,009	2,300,065

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

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	Net Investment in Plant	
Transfers among funds - additions (deductions):							
Mandatory - retirement of indebtedness	(408,563)	0	0	(394,088)	802,651	0	0
Non-mandatory	(103,500)	0	0	(209,566)	383,066	0	(70,000)
Total transfers	(512,063)	0	0	(603,654)	1,185,717	0	(70,000)
Net increase (decrease)	2,294,462	0	(9,831)	(769,178)	0	1,388,780	(2,234,787)
Fund balance at June 30, 2000	4,491,809	0	258,342	5,164,967	0	33,823,300	25,757,080
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 CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2002**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Tuition and fees	\$ 29,117,865	\$ 0	\$ 29,117,865
State appropriations	21,056,275	0	21,056,275
Local appropriations	8,402,176	0	8,402,176
Federal grants and contracts	0	6,649,644	6,649,644
State grants and contracts	61,539	4,709,559	4,771,098
Local grants and contracts	0	450	450
Private gifts, grants, and contracts	217,007	1,174,891	1,391,898
Investment income	229,857	0	229,857
Sales and services of auxiliary enterprises	4,952,217	0	4,952,217
Other sources	1,443,885	0	1,443,885
	<u>65,480,821</u>	<u>12,534,544</u>	<u>78,015,365</u>
Total current revenues			
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	30,969,185	3,905,091	34,874,276
Research	0	8,418	8,418
Public support	0	69,807	69,807
Academic support	3,389,702	165,380	3,555,082
Student services	5,136,450	466,614	5,603,064
Institutional support	8,990,126	206,481	9,196,607
Operation and maintenance of plant	6,054,833	0	6,054,833
Payments to subrecipients	0	278,019	278,019
Student aid	0	7,434,734	7,434,734
	<u>54,540,296</u>	<u>12,534,544</u>	<u>67,074,840</u>
Educational and general expenditures			
Mandatory transfers for:			
Principal and interest	2,131,810	0	2,131,810
Non-mandatory transfers	(70,803)	0	(70,803)
	<u>56,601,303</u>	<u>12,534,544</u>	<u>69,135,847</u>
Total educational and general			
Auxiliary enterprises:			
Expenditures	4,428,649	0	4,428,649
Non-mandatory transfer	376,500	0	376,500
	<u>4,805,149</u>	<u>0</u>	<u>4,805,149</u>
Total auxiliary enterprises			
	<u>61,406,452</u>	<u>12,534,544</u>	<u>73,940,996</u>
Total expenditures and mandatory transfers			
Net increase in fund balances	<u>\$ 4,074,369</u>	<u>\$ 0</u>	<u>\$ 4,074,369</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, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Tuition and fees	\$ 25,024,123	\$ 0	\$ 25,024,123
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.

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 2001 and 50% federal and 50% state for 2002.

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.

Note 1. Summary Of Significant Accounting Policies (Continued)

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 2. Cash and Equity in Pooled Cash and Investments

At June 30, 2002, the carrying amounts of the College’s deposits were \$ 3,499,137 (2002) and \$ 4,744,079 (2001), and the bank balances were \$ 4,660,014 (2002) and \$ 6,137,170 (2001). Included in the deposits are overnight repurchase agreements of \$ 3,137,874 and \$ 0 at June 30, 2002 and 2001, respectively, which are utilized to maximize interest earnings. These agreements are collateralized by government securities (held in the bank’s name). The College’s remaining 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 \$ 300,064 (2002) and \$ 183,212 (2001), while Act 72 coverage was \$ 1,222,076 (2002) and \$ 5,953,958 (2001).

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 \$ 5,227,013 and \$ 6,048,065 (2001). Also included are Commonfund short-term investments with carrying amounts/bank balances of \$ 3,024,733 (2002) and \$ 2,658,589 (2001). 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:

	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Mutual funds – Commonfund Intermediate	<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 22,699</u>	<u>\$ 477,301</u>
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Mutual funds – Commonfund Intermediate	<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 18,520</u>	<u>\$ 481,480</u>

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

Note 3. Investments

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

	2002		
	Cost	Market Value	Unrealized Gains (Losses)
Money market funds	\$ 391,965	\$ 391,965	\$ 0
Equities	17,480,998	15,164,141	(2,316,857)
Government obligations	3,950,201	4,089,466	139,265
Corporate bonds	<u>2,229,412</u>	<u>2,302,974</u>	<u>73,562</u>
	<u>\$ 24,052,576</u>	<u>\$ 21,948,546</u>	<u>(\$ 2,104,030)</u>

	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>

Investment related expenses were \$ 80,200 and \$ 94,780 for the years ended June 30, 2002 and 2001, respectively. These expenses are netted against investment revenues in the statement of activities.

Subsequent to June 30, 2002 and as of September 30, 2002, the Foundation's investments experienced a significant decrease in value. From June 30, 2002 to September 30, 2002, the unrealized loss on investments increased from approximately \$ 2,104,000 to \$ 4,218,000. 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 \$ 508,372 (2002) and \$ 430,087 (2001) 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:

	2002	2001
1991 D, issued \$ 11,195,000 in May 1991; 6.40% - 6.75%; interest and principal payable semi-annually through April 1, 2011	\$ 1,170,000	\$ 1,700,000
1995 C, issued \$ 5,810,000 in June 1995; at 4.65% - 5.6%; interest and principal payable semi-annually through April 1, 2011	3,735,000	4,060,000
1995 D, issued \$ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011	11,605,000	12,430,000
1998 N, issued \$ 4,835,000 in September 1998 at 3.70% - 4.15%; interest payable semi-annually and principal payable annually through April 2005	<u>1,610,000</u>	<u>2,440,000</u>
Total bonds payable	<u>\$ 18,120,000</u>	<u>\$ 20,630,000</u>

Note 5. Bonds Payable (Continued)

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	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 1,350,247	\$ 496,579	\$ 1,289,753	\$ 466,901	\$ 2,640,000	\$ 963,480	\$ 3,603,480
2004	1,144,948	429,971	1,080,052	403,107	2,225,000	833,078	3,058,078
2005	1,203,236	368,867	1,136,764	346,463	2,340,000	715,330	3,055,330
2006	1,068,479	310,245	996,521	290,605	2,065,000	600,850	2,665,850
2007	1,121,574	255,079	1,048,426	239,661	2,170,000	494,740	2,664,740
2008-2011	<u>3,469,348</u>	<u>455,902</u>	<u>3,210,652</u>	<u>423,089</u>	<u>6,680,000</u>	<u>878,991</u>	<u>7,558,991</u>
	<u>\$ 9,357,832</u>	<u>\$ 2,316,643</u>	<u>\$ 8,762,168</u>	<u>\$ 2,169,826</u>	<u>\$ 18,120,000</u>	<u>\$ 4,486,469</u>	<u>\$ 22,606,469</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 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. Under the same agreement described above, the Commonwealth of Pennsylvania will reimburse the college for 50% of the principal and interest on the note. The note is not secured.

The scheduled payments are as follows:

Year ending June 30	State Share		College Share		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 304,182	\$ 57,088	\$ 306,182	\$ 57,090	\$ 612,364	\$ 114,178	\$ 726,542
2004	320,772	42,499	320,772	42,498	641,544	84,997	726,541
2005	336,295	26,975	336,295	26,975	672,590	53,950	726,540
2006	<u>313,955</u>	<u>10,812</u>	<u>313,954</u>	<u>10,811</u>	<u>627,909</u>	<u>21,623</u>	<u>649,532</u>
	<u>\$ 1,277,204</u>	<u>\$ 137,374</u>	<u>\$ 1,277,203</u>	<u>\$ 137,374</u>	<u>\$ 2,554,407</u>	<u>\$ 274,748</u>	<u>\$ 2,829,155</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"). At June 30, 2002, all available monies were drawn down.

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:

	2002	2001
1992 - 1993	\$ 0	(\$ 231)
1993 - 1994	94,620	132,468
1994 -1995/1995 - 1996	21,459	64,394
1997 - 1998	0	33,347
1999 - 2000	169,320	0
2000 - 2001	0	32,342
2001 - 2002	<u>1,630</u>	<u>0</u>
	<u>\$ 287,029</u>	<u>\$ 262,320</u>

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

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

	2002	2001
Unrestricted fund	\$ 89,331	\$ 263,689
Plant funds	<u>197,698</u>	<u>631</u>
	<u>\$ 287,029</u>	<u>\$ 264,320</u>

As of June 30, 2002, the Commonwealth of Pennsylvania owes the College \$ 1,293,734 for the FTE reimbursement for 2001-02.

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, 2002 are as follows:

Year Ending June 30

2003	\$ 59,314
2004	37,848
2005	<u>18,916</u>
Total	<u>\$ 116,078</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:

2003	\$ 2,789,968
2004	2,687,278
2005	2,109,479
2006	2,076,653
2007	<u>2,066,094</u>
Total minimum lease payments	<u>\$ 11,729,472</u>

The total rent for the year ended June 30 was \$ 3,128,374 (2002) and \$ 1,489,827 (2001).

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 (2002) and two months (2001) of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2002	2001
Beginning Balance	\$ 66,200	\$ 41,720
Claims made/Changes in estimates	281,406	289,281
Claims paid	<u>278,085</u>	<u>264,801</u>
Ending Balance	<u>\$ 69,521</u>	<u>\$ 66,200</u>

The college is insured for health costs through a retrospectively rated policy. A reserve of \$ 320,383 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. 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 current rate at June 30, 2002 is .545 and at June 30, 2001 is .97 percent of annual covered payroll. The College's contributions to PSERS for the years ended June 30, 2002, 2001, and 2000, were \$ 10,719, \$ 16,870, and \$ 37,430, 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. The rate at June 30, 2002 is 0 and at June 30, 2001 is .61 percent of annual covered payroll. The College's contributions to SERS for the years ended June 30, 2002, 2001, and 2000, were \$ 0, \$ 12,111, and \$ 83,850, 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, 2002 and 2001 was 10 percent of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity. The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2002	2001	2000
College	\$ 2,198,234	\$ 2,206,913	\$ 2,139,206
Employee	2,006,259	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:

	2002		
	Actual or Estimated Cost	Current Depreciation	Accumulated Depreciation
Land and land improvements	\$ 2,373,450	\$ 29,630	\$ 63,608
Buildings and improvements	65,011,737	1,964,027	18,163,289
Equipment and furnishings	<u>20,135,977</u>	<u>1,663,470</u>	<u>9,870,246</u>
	<u>\$ 87,521,164</u>	<u>\$ 3,657,127</u>	<u>\$ 28,097,143</u>
	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	<u>19,355,953</u>	<u>1,454,088</u>	<u>9,211,811</u>
	<u>\$ 83,520,688</u>	<u>\$ 3,337,255</u>	<u>\$ 25,422,716</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.

The College is currently in litigation involving the State Employee's Retirement System (SERS) and the purchase of past service credit by three employees. The SERS is contending that the College owes employer contributions for credits that the employees purchased. A hearing was held before a hearing examiner on May 2, 2001. The hearing examiner issued a decision in favor of the College. However, the SERS board did not accept the recommendation, and on September 26, 2002 issued an order against the College. The College believes it has a strong case in this matter. However, at this time, the ultimate outcome of this situation is unclear, and there have been no adjustments to these financial statements to reflect any potential liability.

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. Since these audits, the College has been contacted by the Pennsylvania Department of Education and requested to pay back \$ 151,726 for the 2000 grant. The State has not yet reviewed the 2001 grant. The College is currently refuting these findings with the State and it is undeterminable as to how much, if any, the college will have to refund related to these grants. Accordingly, no adjustments have been made to these financial statements to reflect any liability.

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:

2003	\$ 178,467
2004	166,091
2005	106,166
2006	41,704
2007	35,646
2008 and after	<u>65,012</u>
Total	<u>\$ 593,086</u>

The estimated ERSIP liability is discounted at a rate of 5.0% and is \$ 522,051 and \$ 664,055 at June 30, 2002 and 2001, respectively. This is included in accrued liabilities on the balance sheet.

Note 13. Board Designated Fund Balance

Subsequent to year end and pursuant to board action, \$ 150,000 of fund balance was designated to be used for future web/technology upgrades.

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2002

	HACC Foundation	Wildwood Conference Center Foundation	Totals
ASSETS			
Cash and cash equivalents	\$ 97,611	(\$ 1,559,164)	(\$ 1,461,553)
Investments	21,948,546	0	21,948,546
Contributions receivable	692,973	0	692,973
Accrued interest receivable	64,087	0	64,087
Due from HACC	246,100		246,100
Prepaid expenses	3,200	250	3,450
	<u>\$ 23,052,517</u>	<u>(\$ 1,558,914)</u>	<u>\$ 21,493,603</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 0	\$ 15,542	\$ 15,542
Due to other funds	131,344	0	131,344
Fund balances (deficit):			
Unrestricted	9,538,449	(1,574,456)	7,963,993
Unrestricted - board designated	9,598	0	9,598
Temporarily restricted	3,001,870	0	3,001,870
Permanently restricted	10,371,256	0	10,371,256
	<u>\$ 23,052,517</u>	<u>(\$ 1,558,914)</u>	<u>\$ 21,493,603</u>
Revenues and other additions:			
Sales and services	\$ 0	\$ 858,154	\$ 858,154
Private gifts, grants, and contracts	1,118,032	0	1,118,032
Investment income	601,035	0	601,035
Realized and unrealized gains(losses) on investments	(2,233,437)	0	(2,233,437)
Total revenue and other additions	<u>(514,370)</u>	<u>858,154</u>	<u>343,784</u>
Expenditures and other deductions:			
Auxiliary enterprises	0	882,536	882,536
Program services	1,320,503	0	1,320,503
Supporting services	237,649	0	237,649
Total expenditures and other deductions	<u>1,558,152</u>	<u>882,536</u>	<u>2,440,688</u>
Transfers among funds - additions (deductions):			
Non-mandatory	0	(78,672)	(78,672)
Net increase (decrease)	(2,072,522)	(103,054)	(2,175,576)
Fund balance at July 1, 2001	<u>24,993,695</u>	<u>(1,471,402)</u>	<u>23,522,293</u>
Fund balance at June 30, 2002	<u>\$ 22,921,173</u>	<u>(\$ 1,574,456)</u>	<u>\$ 21,346,717</u>

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	(2,202,738)	0	(2,202,738)
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)	(2,138,350)	(96,437)	(2,234,787)
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 Expenditures of Federal Awards
For the Year Ended June 30, 2002**

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	\$ 252,545
FWS Program	84.033	N/A	293,603
PELL Program	84.063	N/A	4,934,612
Perkins loan program	84.038	N/A	<u>31,347</u>
Total student financial aid			\$ 5,512,107
Other Federal Assistance (passed through Pennsylvania Department of Education):			
AmeriCorp	94.006	N/A	22,133
Adult Basic Education	84.002	N/A	44,902
National Science Foundation	47.076	N/A	14,301
Vocational Educational Grants Perkins III	84.048	N/A	373,860
Title III-E Tech Prep Education	84.243	N/A	353,827
Library Service & Tech Grant	45.310	N/A	25,315
Title III Strengthening Institutions	45.031A	N/A	<u>196,603</u>
Total Department of Education			<u>6,511,701</u>
Department of Agriculture (pass through Pennsylvania Department of Public Welfare):			
Community Solutions/Job Retention Welfare Grant	93.558	N/A	<u>61,140</u>
Total Department of Agriculture			<u>61,140</u>
Department of Labor:			
Employment and Training Assistance – Dislocated workers (passed through Pennsylvania Department of Labor and Industry)	17.246	N/A	<u>74,804</u>
Total Department of Labor			<u>74,804</u>
National Endowment for the Humanities:			
Pennsylvania German Heritage (passed through Pennsylvania Humanities Council)	45.129	N/A	<u>2,000</u>
Total federal financial assistance			<u>\$ 6,680,992</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 fund balances, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's combined statement of changes in fund balances. 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

The College administers the following federal loan program:

Total loan expenditures and disbursements of the Department of Education's student financial assistance program for the year ended June 30, 2002 are identified below:

	CFDA Number	Disbursements
Perkins Loan Program	84.038	\$ 28,228 New Loans 3,119 Expenses <u>\$ 31,347</u>
Federal Stafford and PLVS loans	84.032	<u>\$ 11,234,104</u>

The College administers the Federal Perkins Loan Program via a third party processor; accordingly, the College's basic financial statements include the Federal Perkins advances from the U. S. Government and transactions. The balance of Federal Perkins loans outstanding as of June 30, 2002 was \$ 149,085.

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

Note 5. Administrative Expenses

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



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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, 2002, and have issued our report thereon dated October 1, 2002. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standard*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Harrisburg Area Community College in a separate letter dated October 1, 2002.

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 2002-1 and 2002-2.

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 none of the reportable conditions described above 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 1, 2002.

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 1, 2002



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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, 2002. 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 did not audit Harrisburg Area Community College's compliance with the requirements governing maintaining contact with the billing borrowers and processing deferment and cancellation requests and payments of the Federal Perkins Loan Program. Those requirements govern functions performed by EFG Technologies (EFG). EFG's compliance with the functions that it performs for Harrisburg Area Community College was audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the requirements performed by EFG, is based solely on the report of the other auditors.

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, based on our audit and the report of other auditors, 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, 2002.



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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 item 2002-3.

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 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 do not believe that the reportable condition identified as 2002-3 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 1, 2002

HARRISBURG AREA COMMUNITY COLLEGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2002**

I. Summary of Auditor's Results:

Financial Statements:

- (i) Type of auditor's report issued: **Unqualified**
- (ii) Internal control over financial reporting:
- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified not considered
to be material weaknesses? _____Xyes _____None
reported
- (iii) Noncompliance material to financial statements noted? _____yes X no

Federal Awards:

- (iv) Internal control over major programs:
- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified that are not
considered to be material weaknesses? _____Xyes _____None
reported
- (v) Type of auditor's report issued on compliance for major
programs: **Unqualified**
- (vi) Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a) _____yes X no
- (vii) Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.007
84.063
84.033

84.048
84.243

Student Financial Aid:

FSEOG Program
PELL Program
FWS 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: \$ 300,000
- (ix) Auditee qualified as low-risk auditee? _____yes X no

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

Part II

Financial Statement Findings Section:

Reference Number	Finding	Questioned Costs
<i>2002-1 – Stafford Loan Funds</i>		\$ 0
Condition:	The Stafford loan cash account should match the amount in the Stafford loan clearing account. At year-end, this amount was out of balance by approximately \$ 38,500.	
Criteria:	Good internal controls include systematic reconciliations and approvals, and prompt correcting entries as necessary in order to provide proper management and maintain accountability to funding sources.	
Cause:	These accounts should be reconciled during the year to account for all Stafford monies; however, this reconciliation was not prepared.	
Effect:	At year end, the general ledger shows that \$ 38,500 is owed to some individual or party; however, there are no cash funds to pay this amount. This may not be the case, but with no reconciliation, it is impossible to determine.	
Recommendation:	As part of the student financial aid process, these accounts should be reviewed regularly and a reconciliation format should be created to facilitate this process.	
HACC'S Response:	Various Banner and ad hoc reports are being used/developed/refined to incorporate the internal controls necessary to effectively monitor and reconcile this account by the Financial aid office. Changes in procedures due to outsourcing of certain functions and incorporating recommendations by outside consultants are some of the factors which have hindered the reconciliation preparation this past year.	

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

2002-2 – Student Financial Aid Cash Drawdowns

- Condition:** Out of 17 SEOG or PELL grant drawdowns, two cases were identified in which the drawdown occurred more than 40 days after the funds were disbursed to the student accounts.
- Criteria:** PELL and SEOG funds are available for drawdowns from the federal government program (via the GAPS system) after the funds are disbursed to the student account and all applicable documentation is authorized and submitted. In most cases tested, the drawdowns occurred within two weeks of the disbursement to the student's account.
- Cause:** Untimely completion of documentation by the Student Financial Aid department.
- Effect:** Cash "reimbursement" to HACC is delayed, resulting in ineffective cash management. At June 30, 2002, the amount of PELL grants disbursed to student accounts exceeded the amount available on GAPS by \$ 447,851.
- Recommendation:** Greater care should be taken to assure that documentation is reviewed and authorized in a timely manner.
- HACC's Response:** A new staff member at the Lebanon campus has been working closely with Wildwood staff to ensure timely and accurate Pell origination and disbursement files are being completed. This staff member has extensive experience with Pell and GAPS processing and will assist in implementing timely reconciliations and corrections of Pell records so that funds are more readily available through the GAPS system.

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

Part III

Federal Award Findings Section:

Reference Number	Finding	Questioned Costs
2002-3 – Student Financial Aid		\$0
Condition/Cause:	Student financial aid transactions were reviewed and the following instances of noncompliance (which are repeats of the prior year findings) were identified: A) Out of 9 Stafford loan returns to lenders: <ul style="list-style-type: none">• 3 were not done timely.	
Criteria:	Federal guidelines restrict the amount of aid granted to students as well as the timing of disbursements to students and refunds to lenders.	
Cause:	Oversight issues apparently related to staff turnover problems and lack of experienced personnel in the financial aid department.	
Effect:	Unknown.	
Recommendation:	Greater care be taken to be sure similar noncompliance issues do not recur.	
HACC'S Response:	Changes in procedures due to outsourcing of certain functions and incorporating recommendations by consultants have each contributed to these delays during this transitional period. Greater focus and attention will be taken in the future to ensure HACC meets these federal guidelines.	

HARRISBURG AREA COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

Reference Number	Finding	Questioned Costs
	Matters noted at June 30, 2001.	
2001-1	Accounts receivable and property and equipment balances were not reconciled to the general ledger. STATUS: This was not a problem in the current year and property and equipment and accounts receivable areas were much improved.	\$ 0
2001-2	A check for \$ 55,840 was received by the accounts payable department for a bookstore credit and held for two months without being deposited. STATUS: This was an isolated situation and did not reoccur in the current year.	\$ 0
2001-3	Manual journal entries were made to record accruals for fixed asset purchases, but the fixed assets were not recorded on the depreciation system. STATUS: This was corrected in 2001/02.	\$ 0
2001-4	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: This was substantially corrected in 2001/02. See management letter for additional comments.	\$ 197,998
2001-5	Purchase orders for equipment were not signed until July 2001. STATUS: No such findings in 2001/02.	\$ 0
2001-6	Student financial aid transactions were reviewed and several instances of noncompliance were identified. STATUS: Improvement noted, but still noted some non-compliance. See finding 2002-3.	