HARRISBURG AREA COMMUNITY COLLEGE

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

C O N T E N T S

HARRISBURG AREA COMMUNITY COLLEGE

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June 30, 2007

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of Harrisburg Area Community College and its discretely presented component unit as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of Harrisburg Area Community College's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Harrisburg Area Community College and of its discretely presented component unit as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007 on our consideration of Harrisburg Area Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 to 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

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

Board of Trustees
Harrisburg Area Community College

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Harrisburg Area Community College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and NonProfit Organizations*, and is not a required part of the financial statements. The schedule of expenses by functional classification - primary institution is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 16, 2007

Harrisburg Area Community College
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2007, 2006, and 2005

Introduction:

Management's discussion and analysis (MD&A) of Harrisburg Area Community College's (HACC) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and 2005. The purpose of the MD&A is to assist readers with understanding the accompanying financial statements by providing objective and understandable analysis of HACC's financial activities based on current known facts, decisions, and conditions. HACC management has prepared this analysis and is responsible for the completeness and fairness of the information contained within. This MD&A should be read in conjunction with the financial statements and notes that follow.

The College has prepared its financial statements in accordance with Government Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that the financial statements be presented to focus on the College as a whole. Three financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenditures, and Changes in Net Assets; and the Statement of Cash Flows.

The College's basic financial statements contain information for both the primary institution and its component unit, the HACC Foundation. Management's discussion and analysis focuses on the primary institution. Separately issued financial statements are available for the HACC Foundation by contacting Mr. George Franklin, Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

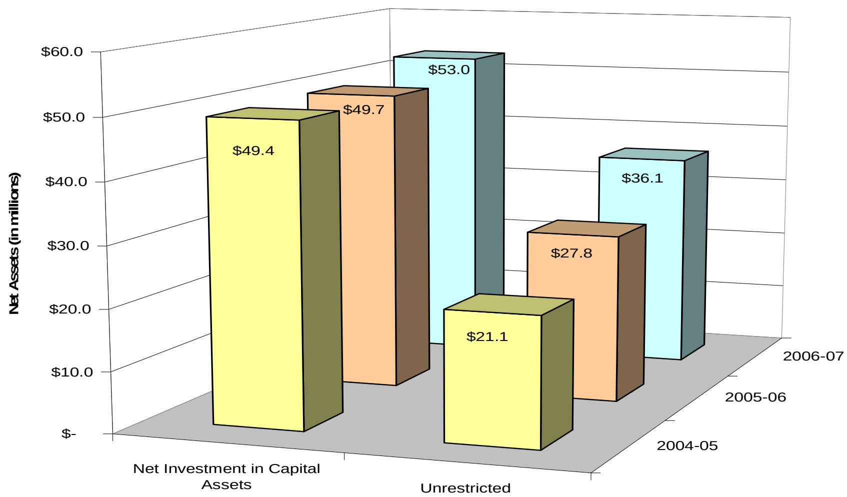
Financial Highlights:

HACC's financial position continues to remain strong as of June 30, 2007. At June 30, 2007 HACC's assets of $139.1 million exceeded it's liabilities of $50.0 million by $89.1 million, an increase over the prior year of $11.6 million. At June 30, 2006, assets of $130.6 million exceeded liabilities of $53.1 million by $77.5 million, an increase over the prior year of $7.0 million.

The Net Assets, which represent the difference between total assets and total liabilities, are divided into two major categories. The first category, invested in capital assets, net of related debt, provides the College's equity in property, plant and equipment it owns. The second category, unrestricted net assets, is available to use for any lawful purpose of the College. The following table and graph summarizes the College's statement of net assets by category for the fiscal years ended June 30, 2007, 2006, and 2005.

Net Assets
(In millions)

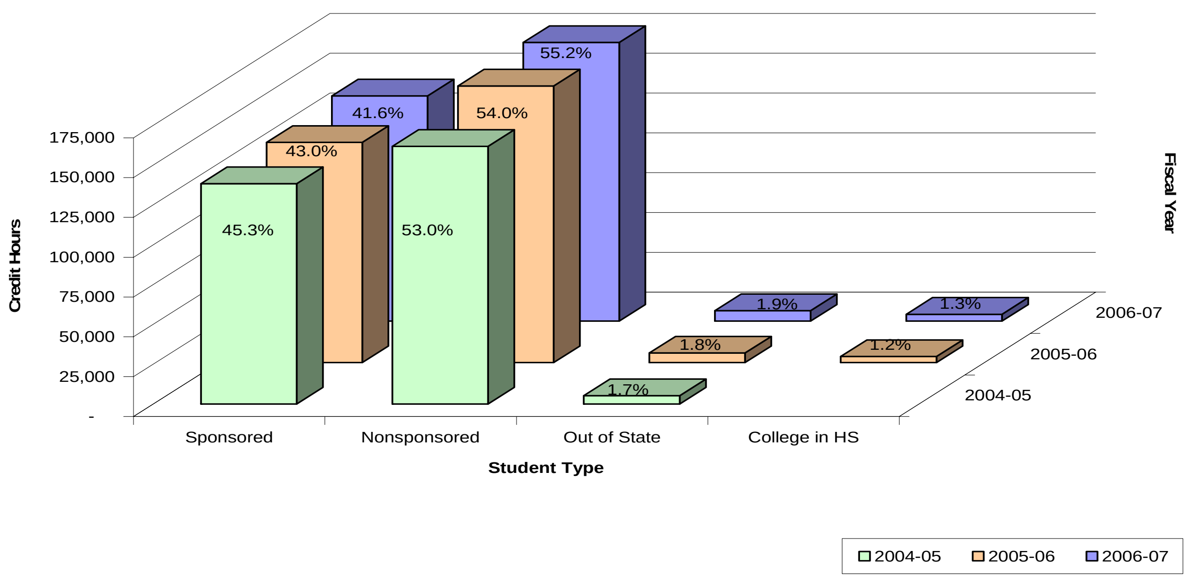
	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Invested in capital assets, net of related debt	$53.0	$49.7	$3.3	$49.4	$0.3
Unrestricted	36.1	27.8	8.3	21.1	6.7
Total Net Assets	$89.1	$77.5	$11.6	$70.5	$7.0



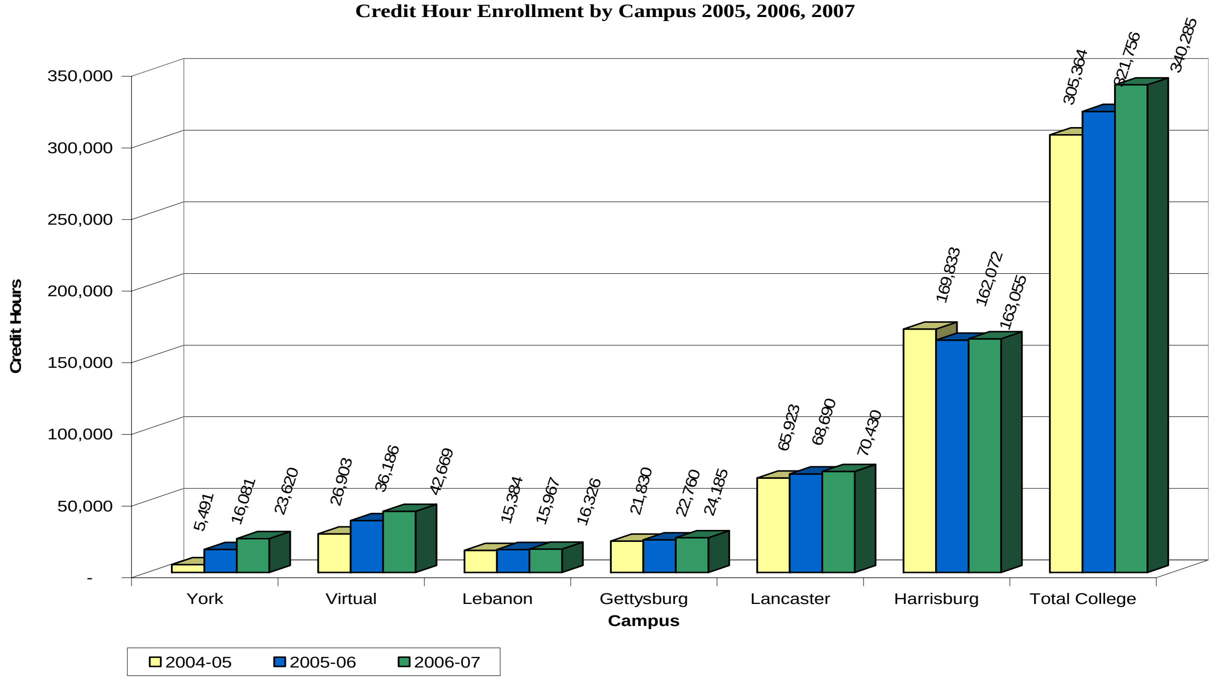
Credit hour enrollment increased at a 5.8% growth rate while the 2006 rate was at 5.4%. Total credit hour production of 340,285 was 18,529 greater than from the 2006 credit hours of 321,756. In 2006 the growth was 16,392 credit hours higher than the 2005 credit hours of 305,364. As was the case last year, the York and Virtual operations had the most significant growth.

HACC's nonsponsored credit hour enrollments continue to exceed sponsored credit hours. Each year a greater percentage of the total credit hours produced have been comprised of nonsponsored students, which indicated the tremendous growth being experienced from our regional campuses. In 2007 the 187,898 nonsponsored credit hours represents 55.2% of the total credit hours. This shows an increase from 173,762 credit hours or 54.0% of the total in 2006 and 161,817 credit hours or 53.0% from 2005. Each nonsponsored student pays 'two parts' tuition or $161 per credit hour in 2007, where a sponsored student pays 'one part' tuition, or $80.50 per credit hour and also receives local sponsoring school district support of $78.00 per credit hour. In the past sponsoring school district rates were always equal to the sponsored student tuition rate. Fiscal year 2007 is the first time HACC capped the school district reimbursement at the prior year's rate while increasing the sponsored student tuition by 3.2%. This change in sponsorship funding was implemented to assist our local sponsors respond to new state legislation which limits their annual budget growth.

Credit Hour Production by Student Type



Credit Hour Enrollment by Campus 2005, 2006, 2007



Statement of Net Assets:

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the June 30, 2007 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net assets representing funds available to continue the operations of the institution. It presents the end-of-the year data for Current and Noncurrent Assets, Current and Noncurrent Liabilities and Net Assets (Assets minus Liabilities). Over periods of time, increases and decreases in net assets may serve as a useful gauge of the College's financial position. As the following chart illustrates, the College is in a strong financial position with net assets increasing over the past several years.

Statement of Net Assets
(In millions)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Assets					
Current Assets	$56.4	$48.1	$8.3	$47.8	$0.3
Noncurrent Assets	82.7	82.5	0.2	75.6	6.9
Total Assets	139.1	130.6	8.5	123.4	7.2
Liabilities					
Current Liabilities	19.9	18.9	1.0	19.5	(0.6)
Noncurrent Liabilities	30.1	34.2	(4.1)	33.4	0.8
Total Liabilities	50.0	53.1	(3.1)	52.9	0.2
Net Assets					
Invested in Capital Assets, net of debt	53.0	49.7	3.3	49.4	0.3
Unrestricted	36.1	27.8	8.3	21.1	6.7
Total Net Assets	$89.1	$77.5	$11.6	$70.5	$7.0

In 2007 current assets increased by $8.3 million over 2006. Most of this increase is in cash and cash equivalents and short term investments resulting primarily from college-wide enrollment growth of 5.8% in conjunction with a 3.2% tuition increase in 2007 and higher interest rates on college investments. Other assets increased by $1.2 million for deposits made by HACC on the future purchase of the Gettysburg and Lancaster Campus facilities.

The $4.1 million reduction in noncurrent liabilities between 2007 and 2006 is primarily due to the payment of principal of existing bonds and notes payables.

Net assets increased to $89.1 million as of June 30, 2007. The largest portion of these net assets reflects the College's investment in capital assets, less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty and staff, so these assets are not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

Statement of Revenues, Expenses, and Changes in Net Assets:

The Statement of Revenues, Expenses, and Changes in Net Assets present the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

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

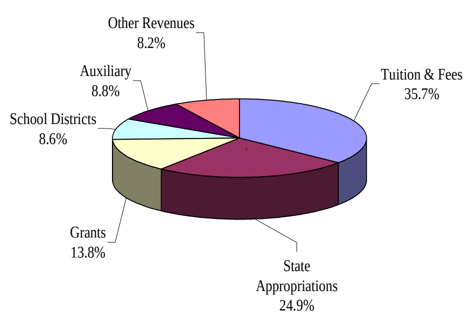
The following is a summarized version of the College's revenues, expenses and changes in net assets for years ended June 30, 2007, 2006, and 2005 and graphical representations of revenues and expenses by category.

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

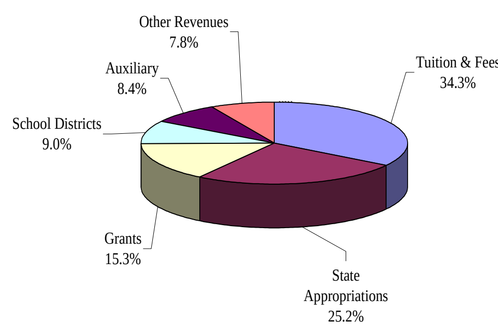
	2007	2006	Increase (Decrease) 2007 - 2006	2005	Increase (Decrease) 2006 - 2005
Operating Revenues	$82.0	$76.8	$5.2	$68.9	$7.9
Operating Expenses	126.5	121.7	4.8	108.2	13.5
Operating Income (Loss)	(44.5)	(44.9)	0.4	(39.3)	(5.6)
Nonoperating Revenues (Net)	46.0	43.0	3.0	39.0	4.0
Net Income (Loss) Before Capital Contributions	1.5	(1.9)	3.4	(0.3)	(1.6)
Capital Contributions	10.0	9.1	0.9	6.5	2.6
Increase (Decrease) in Net Assets	$11.5	$7.2	$4.3	$6.2	$1.0

Total Operating and Nonoperating Revenue

2007



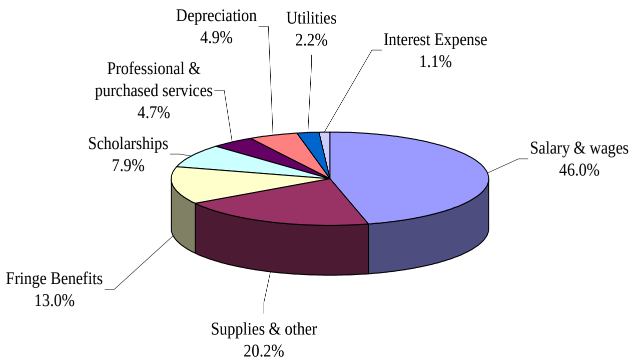
2006



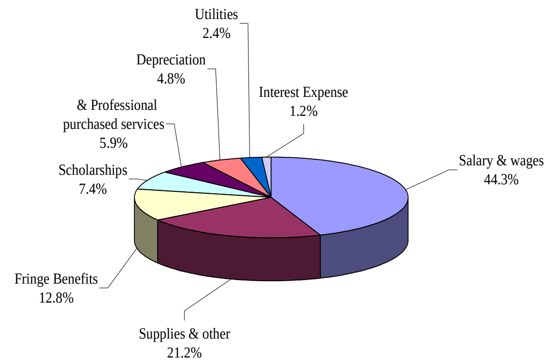
Operating revenues in 2007 were $5.2 million greater than 2006. Total operating revenues in 2006 were $76.8 million, which was an increase of $7.9 million over 2005. The 2007 increase is again largely attributable to the growth in enrollments and increased tuition per credit hour to $80.50 in 2007 versus $78.00 in 2006, but other sources of revenue such as state appropriations, financial aid, and auxiliary service revenue, primarily from our bookstore operations, contributed to this growth.

Total Operating Expenditures by Natural Source

2007

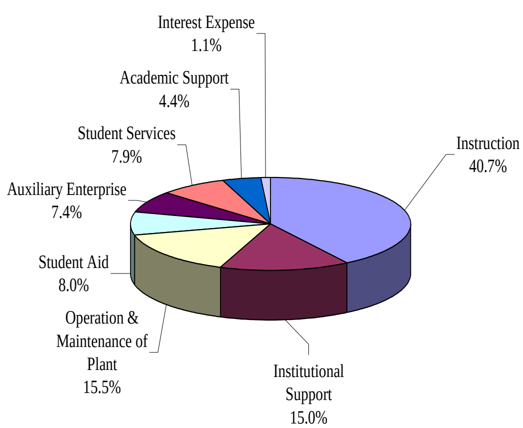


2006

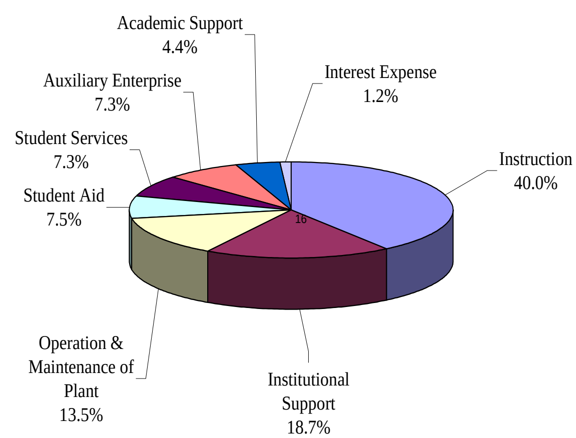


Total Operating Expenditures by Function

2007



2006



The other side of the enrollment growth is shown in the $4.8 million increase in operating expense in 2007. Most of this increase is in salary and benefits which resulted from a 4.0% salary increase in 2007 as well as the added costs associated with new staffing in areas of growth. Another increase of note in the operating expense is scholarships of $1.0 million over 2006. However, the professional & purchased services expenditures decreased by $1.3 million due to reductions of grant funded instructional consultants, architectural & engineering fees, and various other consulting fees compared to prior years. Many of the professional fees affiliated with expansion of the Midtown and York locations were included in the 2006 figures.

The total non-operating revenue for fiscal year 2007 amounted to $46.0 million, an increase of $3.0 million over the prior year. Under the new community college appropriation formula instituted by the Commonwealth in 2006, HACC received an additional $1.7 million of state appropriated funds over the previous year. Another $600,000 in investment income was received by HACC over the prior year due to the strong investment position of the College and positive economic conditions maintained throughout the course of the year.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year. Continued enrollment growth generated both additional revenue and expense. At year end, there was an increase in net assets of $11.5 million which is $4.3 million more than the $7.2 million increase in 2006.

Statement of Cash Flows:

The final statement presented by Harrisburg Area Community College is the Statement of Cash Flows. The Statement of Cash Flows presents information about the cash activity of the College identifying the major sources and uses of cash during the year. The following summary shows that HACC's liquidity remained strong and as of June 30, 2007 had increased by $2 million compared to the prior year. The following is a summary of the statement of cash flows for the years ended June 30, 2007, 2006, and 2005.

Cash Flows
(In millions)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Cash Provided (Used) By:					
Operating Activities	($37.2)	($38.3)	$1.1	($32.7)	($5.6)
Noncapital Financing Activities	43.9	44.7	(0.8)	40.2	4.5
Capital Financing Activities	(2.2)	(7.2)	5.0	8.3	(15.5)
Investing Activities	(2.5)	4.2	(6.7)	(9.2)	13.4
Net Increase in Cash and Cash Equivalents	2.0	3.4	(1.4)	6.6	(3.2)
Cash and Cash Equivalents - Beginning of Year	27.6	24.2	3.4	17.6	6.6
Cash and Cash Equivalents - End of Year	$29.6	$27.6	$2.0	$24.2	$3.4

Capital Plan:

The College continued to undertake projects identified in the facility master plan during the course of fiscal year 2007. In addition to the management of existing facilities, the strategic plan will assist the College in determining the direction best suited to support the continued growth and expansion of HACC. This will enable the College to prudently allocate the capital resources and better determine when capital financing is required. Some of the anticipated 2008 capital projects include an $18 million purchase and renovation of the Gettysburg Campus, Phase IV York expansion, renovations at Midtown 1 (previously called the CCTA) and utilization of the newly created Midtown 2 teaching facility.

Capital Asset and Debt Administration:

During the year ended June 30, 2007 the College had total capital additions of approximately $6.4 million. This activity included various College Master Plan projects, such as the Blocker Hall electrical and roof renovations, Rose Lehrman Arts Building window replacements/upgrades, the Lebanon campus remodeling project, acquisition of instructional and other equipment along with various other improvements at HACC locations.

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

In fiscal year 2007 HACC paid off the $1 million 2006 revolving loan used to fund the York Center Phase III expansion. In the late summer of 2007, final negotiations were taking place to purchase and fund the expansion and renovation of the Gettysburg Campus. In July 2007 an $18.0 million bond was issued through Fulton Bank to finance this endeavor. The Midtown 2 facility opened for classes in Fall 2007 which involved leasehold improvements and the acquisition of state of the art instructional equipment at this location.

Economic Factors That Will Affect the Future:

The economic position of Harrisburg Area Community College is closely tied to the economy and the State's budget. Increasing high school graduating classes, the College's ongoing expansion into new markets, and retention efforts have resulted in continued enrollment growth. The purchase of the Gettysburg Campus, expansion of the York Campus, increased offerings by the Virtual Campus, and the expansion of the Midtown location to include new technology programs will continue to stimulate future enrollment growth.

HACC's enrollment growth in conjunction with community partnerships to meet the growing demands of our customers provides ample opportunities for expansion. HACC continues to be on the cutting edge by offering new programs to our students. The College continues to pursue alternative sources of revenue including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals and state agencies to meet our ongoing mission to provide low cost education to all who seek it.

Overall, the College's current financial position is very strong as is evident by the 2007 financial statements and will continue to grow and expand while efficiently managing available resources in a prudent manner.

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2007	**2006**	**2007**	**2006**
ASSETS				
Current Assets				
Cash and cash equivalents	$ 29,611,949	$ 27,605,480	$ 3,917,560	$ 2,836,339
Short-term investments	14,210,771	9,695,379	935,252	1,528,388
Accounts receivable, net	8,002,749	7,426,470	3,033,531	2,413,762
Loans receivable - current portion	71,040	48,960	0	0
Other assets	2,400,365	1,230,215	0	0
Inventories	1,917,289	1,970,368	0	0
Due from HACC Foundation	173,409	154,209	0	0
Total Current Assets	56,387,572	48,131,081	7,886,343	6,778,489
Noncurrent Assets				
Long-term investments	0	0	26,536,883	24,173,635
Loans receivable - long term portion	202,822	224,454	0	0
Capital assets, net of accumulated depreciation	82,468,537	82,312,857	0	0
Total Noncurrent Assets	82,671,359	82,537,311	26,536,883	24,173,635
Total Assets	$ 139,058,931	$ 130,668,392	$ 34,423,226	$ 30,952,124
LIABILITIES				
Current Liabilities				
Due to HACC	$ 0	$ 0	$ 173,409	$ 154,209
Accounts payable and accrued expenses	12,756,808	12,160,528	0	0
Deposits held in custody for others	772,568	620,555	0	0
Unearned revenue	1,738,146	1,567,684	7,650	1,501
Current portion of long term liabilities	4,618,293	4,561,532	100,000	100,000
Total Current Liabilities	19,885,815	18,910,299	281,059	255,710
Noncurrent Liabilities				
Long-term liabilities	30,105,657	34,225,870	502,313	602,313
Total Noncurrent Liabilities	30,105,657	34,225,870	502,313	602,313
Total Liabilities	49,991,472	53,136,169	783,372	858,023
NET ASSETS				
Invested in capital assets, net of related debt	53,032,829	49,671,132	0	0
Restricted - nonexpendable	0	0	11,744,665	10,575,467
Restricted - expendable	0	0	15,851,454	13,403,890
Unrestricted	36,034,630	27,861,091	6,043,735	6,114,744
Total Net Assets	89,067,459	77,532,223	33,639,854	30,094,101
Total Liabilities and Net Assets	$ 139,058,931	$ 130,668,392	$ 34,423,226	$ 30,952,124

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended June 30, 2007 and 2006

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2007	2006	2007	2006
REVENUES				
Operating Revenues				
Student tuition and fees	$ 51,638,340	$ 46,671,255	$ 0	$ 0
Scholarship allowance and discounts	(5,569,093)	(5,138,853)	0	0
Federal grants	12,587,229	11,951,131	0	0
State and local grants	4,843,196	6,262,242	0	0
Nongovernmental grants	370,051	385,993	0	0
Sales and services of auxiliary enterprises	11,355,456	10,208,292	0	0
Other operating revenues	6,809,529	6,487,816	0	0
Contributions	0	0	3,092,628	2,059,323
Investment income, net of investment expense of $152,823 - 2007 and $92,941 - 2006	0	0	816,397	677,730
Realized and unrealized gains (losses) on investments	0	0	3,171,126	756,743
Total Operating Revenues	82,034,708	76,827,876	7,080,151	3,493,796
EXPENSES				
Operating Expenses				
Salaries and wages	58,869,845	54,582,892	197,886	191,535
Fringe benefits and payroll taxes	16,647,730	15,760,532	61,260	66,659
Supplies and other expense	25,757,483	26,110,601	160,027	240,373
Professional and purchased services	5,971,336	7,235,115	94,371	107,919
Utilities	2,845,403	2,958,647	0	0
Depreciation and amortization	6,283,799	5,874,365	0	0
Scholarships	10,162,329	9,150,455	858,321	786,159
Contributions and grants	0	0	2,162,533	1,745,270
Total Operating Expenses	126,537,925	121,672,607	3,534,398	3,137,915
Operating Income (Loss)	(44,503,217)	(44,844,731)	3,545,753	355,881
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	32,287,382	30,608,467	0	0
Local appropriations	11,185,297	10,919,391	0	0
Gifts	1,771,266	1,354,389	0	0
Gain on sale of assets	2,500	201,275	0	0
Investment income, net of investment expenses of $19,915 - 2007 and $11,493 - 2006	2,148,037	1,423,856	0	0
Interest on capital asset related debt	(1,408,824)	(1,538,816)	0	0
Total Non-Operating Revenues, net	45,985,658	42,968,562	0	0
Net Income Before Capital Contributions	1,482,441	(1,876,169)	3,545,753	355,881
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	200,000	200,000	0	0
Capital appropriations - state sources	7,499,151	7,107,008	0	0
Capital grants and gifts	2,353,644	1,771,167	0	0
Total Capital Contributions	10,052,795	9,078,175	0	0
Increase in Net Assets	11,535,236	7,202,006	3,545,753	355,881
Net Assets - Beginning of Year (as restated)	77,532,223	70,330,217	30,094,101	29,738,220
Net Assets - End of Year	$ 89,067,459	$ 77,532,223	$ 33,639,854	$ 30,094,101

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2007	**2006**	**2007**	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments received for tuition and fees	$ 45,737,159	$ 42,111,711	$ 0	$ 0
Payments received from grants and contracts	18,136,668	18,045,848	0	0
Payments received from auxiliary enterprise charges	11,200,480	10,074,535	0	0
Payments received from other revenues	7,309,714	6,505,722	0	0
Payments received from donors (temporary and unrestricted)	0	0	1,372,075	774,770
Payments received from investment activities	0	0	432,440	316,804
Payments to and on behalf of employees	(74,776,378)	(67,961,307)	(259,146)	(258,194)
Payments to suppliers for goods and services	(34,626,274)	(37,898,952)	(200,361)	(277,892)
Payments for interest	0	0	(38,668)	(49,177)
Payments for contributions and grants	0	0	(2,121,171)	(2,268,823)
Payments for financial aid and scholarships	(10,162,776)	(9,142,668)	(895,942)	(694,953)
Net cash (used) by operating activities	(37,181,407)	(38,265,111)	(1,710,773)	(2,457,465)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	32,198,853	31,966,081	0	0
Local appropriations	9,902,027	11,349,336	0	0
Gifts received	1,784,690	1,404,296	0	0
Collection of contributions restricted for long-term purposes	0	0	1,117,245	2,812,799
Collection of investment income restricted for long-term purposes	0	0	426,293	340,165
Proceeds from borrowing	0	0	0	0
Cash provided by financing activities	0	0	(100,000)	(297,687)
Net cash provided by noncapital financing activities	43,885,570	44,719,713	1,443,538	2,855,277
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Capital debt financing	938,674	5,305,690	0	0
State and local appropriations	7,717,534	7,321,356	0	0
Capital grants and gifts received	2,198,382	2,134,443	0	0
Purchases of capital assets	(6,373,215)	(16,017,908)	0	0
Proceeds from sale of capital assets	2,500	201,275	0	0
Principal paid on debt and capital leases	(5,215,782)	(4,638,944)	0	0
Interest paid on debt and capital leases	(1,420,247)	(1,516,222)	0	0
Net cash provided (used) by capital financing activities	(2,152,154)	(7,210,310)	0	0
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(13,500,000)	(7,950,000)	(7,952,183)	(72,246,744)
Proceeds from sale/maturities of investments	8,985,950	10,774,878	9,300,639	72,756,649
Investment income	1,968,510	1,381,755	0	0
Net cash provided (used) by investing activities	(2,545,540)	4,206,633	1,348,456	509,905
Increase in cash and cash equivalents	2,006,469	3,450,925	1,081,221	907,717
Cash and Cash equivalents - Beginning of Year	27,605,480	24,154,555	2,836,339	1,928,622
Cash and Cash equivalents - End of Year	$ 29,611,949	$ 27,605,480	$ 3,917,560	$ 2,836,339

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

HARRISBURG AREA COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS - CONTINUED
Years Ended June 30, 2007 and 2006

	PRIMARY INSTITUTION		COMPONENT UNIT FOUNDATION	
	2007	**2006**	**2007**	**2006**
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	($ 44,503,217)	($ 44,844,731)	$ 3,545,753	$ 355,881
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Depreciation and amortization expense	6,283,799	5,874,365	0	0
Gain on disposal of capital assets	3,524	25,929	0	0
Realized and unrealized (gain) loss on investments	0	0	(3,118,568)	(756,743)
Contributions restricted for long-term investment	0	0	(1,117,245)	(2,812,799)
Contributions of investment income restricted for long-term purposes	0	0	(426,293)	(340,165)
(Increase) Decrease in:				
Accounts receivable	284,092	23,537	(619,769)	1,521,392
Inventory	53,079	(561,057)	0	0
Other assets	(1,189,305)	(454,843)	0	0
Increase (Decrease) in:				
Unearned revenue	0	0	6,150	(9,600)
Accounts payable and accrued expense	1,734,608	1,546,020	19,199	(415,431)
Deposits	152,013	125,669	0	0
Net cash (used) by operating activities	($ 37,181,407)	($ 38,265,111)	($ 1,710,773)	($ 2,457,465)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS				
Capital gifts of equipment and buildings	$ 155,262	$ 41,745	$ 0	$ 0
Realized and unrealized gains (losses) on investments	$ 1,342	($ 5,720)	$ 3,171,126	$ 756,743

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary Of Significant Accounting Policies

Organization

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

***Measurement Focus and Basis of Accounting* -** The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities (an Amendment of GASB Statement No. 34).* The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its combined financial statements.

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

***Reporting Entity* -** GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* which amends Statement No. 14, *The Financial Reporting Entity*, provides guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

The Harrisburg Area Community College Foundation (the "HACC Foundation") and the Wildwood Conference Center Foundation are included in the College's financial statements as component units due to the oversight responsibility of the College in accordance with GASB standards. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. In accordance with the provisions of GASB Statement 39, the HACC Foundation is shown as a discretely presented component unit due primarily to the fact that it was organized for the purpose of receiving gifts and grants and to distribute the available funds to, or for the benefit of, the College. Substantially all of HACC Foundation's expenses for scholarships, contributions, and grants flow through as "state and local grants" income on the College's financial statements. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as a blended component unit and included with the activity of the college. Separate financial statements are available for the HACC Foundation by contacting the College's Office of Finance and College Resources, One HACC Drive, Harrisburg, Pennsylvania 17110-2999.

Financial Statement Presentation - The College has adopted GASB Statements No. 34 and 35 (as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*), and No. 38, *Certain Financial Statement Note Disclosures.* These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

- *Invested in capital assets, net of related debt* - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted net assets, expendable* - This includes resources for which HACC Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

- *Restricted net assets, nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

- *Unrestricted net assets* - Unrestricted net assets represent resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of Statement No. 35 have been applied to the years presented.

The HACC Foundation follows SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For the statement of net assets, restricted net assets-expendable is the same classification as temporarily restricted net assets. In addition, the HACC Foundation is considered a non-profit organization and follows FASB pronouncements, not GASB pronouncements. Therefore, it is not subject to the same disclosure requirements as the College.

Note 1. Summary Of Significant Accounting Policies (Continued)

Management's Use of Estimates **-** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents **-** These include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, the College's short-term pooled investments in the PSDLAF and Commonfund. For purposes of the statement of net assets, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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

Total Return Policy - HACC Foundation **-** The Foundation has adopted a total return policy for its permanently restricted endowment funds and a separate trust was created to maintain the investments for these funds. Based on the policy and the revocable trust agreement, income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7% and was approved to be 4% for the years ended June 30, 2007 and 2006. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of fund principal as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

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

Capital Assets **-** Buildings and improvements are stated at cost less accumulated depreciation. Equipment is stated at estimated historical cost (based on an appraisal done July 1, 1999, plus actual costs for subsequent purchases) less accumulated depreciation. The College provides for depreciation on the straight-line method over the estimated useful lives of the related assets as shown below. All assets with a purchased cost, or fair value if acquired by gift, in excess of $ 1,000 with an estimated useful life in excess of one year is capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Asset Type	Useful Life in Years
Buildings	45
Land improvements	20
Equipment	5 - 20
Furniture	20

Long-Term Obligations

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

Note 1. Summary Of Significant Accounting Policies (Continued)

Income Taxes **-** The College is considered an activity of the Commonwealth of Pennsylvania and is tax-exempt. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The HACC Foundation and Wildwood Conference Center Foundation are exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

Compensated Absences **-** Liability for compensated absences is accounted for in accordance with the provisions of Statement No. 16 of the GASB, *Accounting for Compensated Absences.* This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to a maximum of twenty vacation leave days per year and are entitled to compensation for accumulated, unpaid vacation leave upon termination up to a maximum of forty days. Full-time employees also earn up to 12 sick leave days per year and are entitled to compensation for accumulated unpaid sick leave upon retirement. The maximum payout is for 45 sick days.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net assets.

Classification of Revenues **-** The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues* **-** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, state, local, and nongovernmental grants and contracts; and (4) sales and service of educational activities.

- *Nonoperating revenues* **-** Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the College receives value without directly giving equal value in return), such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state and local appropriations and investment income.

Allowance for Doubtful Accounts **-** It is the College's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectability experienced by the College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

Use of Restricted Net Assets **-** The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted funds first when practicable.

Note 1. Summary Of Significant Accounting Policies (Continued)

Scholarship Allowances **-** Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and the Federal Family Educational Loan (FFEL) Program is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as either operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Pension Plans **-** Employees of the College are provided pension benefits through one of three available cost-sharing, multiple-employer retirement plans. The College follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 27 establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 11 for additional information.

Note 2. Cash and Cash Equivalents

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College’s deposits may not be returned to it. The College does not have a policy for custodial credit risk. As of June 30, 2007, $ 28,895,401 of the College’s bank balance of $ 29,226,050 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department but not in the College's name	28,895,401
	$ 28,895,401

Included in investments on the statement of net assets are CD’s invested in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 13,500,000, all with maturities of greater than three months. These are considered deposits for purposes of this disclosure.

Note 3. Investments

Credit Risk

Included in cash and cash equivalents on the statement of net assets are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 9,797,158 and the Commonfund – Short-term fund of $ 5,457,322. These funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of $ 1 per share. At June 30, 2007, the College's investment in PSDLAF was rated AAAm and the College's investment in Commonfund – Short-term was rated AAA by Standard & Poor's Investors Service.

As of June 30, 2007, the College's investment of $ 467,544 in the Commonfund – Intermediate Term Fund was rated AA+ by Standard & Poor's Investors Service. The College's investment of $ 243,227 in the J P Morgan US Treasury Plus Money Market Fund was rated AAAm by Standard & Poor's Investors Service.

Interest Rate Risk

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

As of June 30, 2007, the College had the following investments that were subject to interest rate risk. The College does not have a written policy for interest rate risk.

Investment	Maturity	Fair Value
J P Morgan US Treasury Plus Money Market Fund	N/A	$ 243,227
Commonfund - Short Term Fund	Effective Duration 3.3 months	5,457,322
Commonfund - Intermediate Term Fund	Effective Duration 1.5 years	467,544

Investments of the HACC Foundation as of June 30, 2007 and 2006 are comprised of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
		2007	
Money market funds	$ 935,252	$ 935,252	$ 0
Equities	11,254,106	13,474,140	2,220,034
Mutual funds	8,959,932	9,734,349	774,417
Government obligations	2,507,772	2,445,897	(61,875)
Corporate bonds	925,598	882,497	(43,101)
	$ 24,582,660	$ 27,472,135	$ 2,889,475

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

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	College		HACC Foundation	
	2007	**2006**	**2007**	**2006**
Student Tuition and fees	$ 5,629,380	$ 4,120,811	$ 0	$ 0
Allowance for doubtful accounts	(620,000)	(500,000)	0	0
Grants and contracts receivable	1,072,512	1,616,755	0	0
State appropriations receivable	6,614	5,821	0	0
Bookstore receivables	1,006,526	846,986	0	0
Other receivables	907,717	1,336,097	93,707	83,485
Pledges receivables (net)	0	0	2,794,663	2,193,866
Charitable remainder annuity trust held by outside party	0	0	145,161	136,411
Total	$ 8,002,749	$ 7,426,470	$ 3,033,531	$ 2,413,762

Bookstore receivables include $ 991,449 and $ 841,114 in vendor credit memos at June 30, 2007 and 2006, respectively.

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 4.9% for June 30, 2007 and 5% for June 30, 2006. The unamortized discount was $ 465,709 and $ 251,318 at June 30, 2007 and 2006.

Note 5. Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2007 and 2006:

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

2006	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Cost:				
Land	$ 1,639,470	$ 0	$ 0	$ 1,639,470
Building	51,555,745	12,137,089	0	63,692,834
Improvements - land	1,167,823	186,996	0	1,354,819
Improvements - building	15,015,204	3,984,626	0	18,999,830
Improvements - leasehold	3,298,378	5,927,540	0	9,225,918
Instructional equipment	20,342,157	3,437,426	(12,062)	23,767,521
Non-instructional equipment	8,065,932	2,217,271	(326,218)	9,956,985
Construction in process	15,116,263	0	(15,116,263)	0
Total cost	116,200,972	27,890,948	(15,454,543)	128,637,377
Less accumulated depreciation:				
Building	(18,724,145)	(1,511,398)	0	(20,235,543)
Improvements - land	(206,568)	(64,294)	0	(270,862)
Improvements - building	(5,396,598)	(925,118)	0	(6,321,716)
Improvements - leasehold	(511,053)	(346,860)	0	(857,913)
Instructional equipment	(8,609,436)	(1,150,906)	0	(9,760,342)
Non-instructional equipment	(7,335,765)	(1,854,730)	312,350	(8,878,144)
Total accumulated depreciation	(40,783,565)	(5,853,306)	312,350	(46,324,520)
Capital assets, net	$ 75,417,407	$ 22,037,642	($ 15,142,193)	$ 82,312,857

Note 6. Other Assets

Other assets of the College at June 30 consist of:

	2007	2006
Prepaid expenses	$ 2,076,009	$ 879,407
Bond issue costs	586,212	469,613
Accumulated amortization - bond issue costs	(261,856)	(118,805)
	$ 2,400,365	$ 1,230,215

Note 7. Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2007 and 2006:

2007

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 82,186	$ 0	($ 50,782)	$ 31,404	$ 27,772	$ 3,632
Bonds and notes payable:						
Series of 1995 C and D	6,570,000	0	(1,760,000)	4,810,000	1,865,000	2,945,000
Series of 2004	22,685,000	0	(1,920,000)	20,765,000	1,975,000	18,790,000
Series of 2005	4,965,000	0	(485,000)	4,480,000	495,000	3,985,000
Note payable - 2006	61,326	938,674	(1,000,000)	0	0	0
Bond premium	48,415	0	(2,686)	45,729	2,686	43,043
Bond discount	(23,861)	0	1,255	(22,606)	(1,256)	(21,350)
Loss on refinancing	(112,471)	0	6,235	(106,236)	(6,235)	(100,001)
Total leases and bonds/notes payable	34,275,595	938,674	(5,210,978)	30,003,291	4,357,967	25,645,324
Other liabilities:						
Compensated absences:						
Vacation leave	2,138,902	384,944	(111,877)	2,411,969	138,199	2,273,770
Sick leave	2,262,107	65,716	(92,762)	2,235,061	89,291	2,145,770
Early retirement payable	110,798	0	(37,169)	73,629	32,836	40,793
Total other liabilities	4,511,807	450,660	(241,808)	4,720,659	260,326	4,460,333
Total long-term liabilities	$ 38,787,402	$ 1,389,334	($ 5,452,786)	$ 34,723,950	$ 4,618,293	$ 30,105,657

2006

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

Note 7. Long-Term Liabilities (Continued)

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2007 and 2006 consist of the following:

	2007	2006
1995 D, issued $ 16,685,000 in June 1995; at 4.50% - 6.25%; interest and principal payable semi-annually through April 1, 2011	$ 4,810,000	$ 6,570,000
2004, issued $ 26,530,000 in July 2004; at 2.25% - 5.25% interest and principal payable semi-annually through April 2024	20,765,000	22,685,000
2005, issued $ 5,435,000 in July 2005; at 3.00% - 4.00% interest and principal payable semi-annually through April 2015	4,480,000	4,965,000
Total bonds payable	$ 30,055,000	$ 34,220,000

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.

Future Maturities

Under an agreement with the Commonwealth of Pennsylvania, 50%-52% of the principal and interest on outstanding bonds due to the SPSBA will be paid by the Commonwealth on a reimbursement basis. The combined aggregate amounts of maturities, including the July 31, 2007 bond issue (Note 16), are as follows:

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	$ 2,607,157	$ 932,314	$ 2,507,843	$ 918,208	$ 5,115,000	$ 1,850,522	$ 6,965,522
2009	2,125,446	991,705	2,024,554	975,659	4,150,000	1,967,364	6,117,364
2010	2,074,882	897,297	1,995,118	887,020	4,070,000	1,784,317	5,854,317
2011	2,160,278	809,435	2,074,722	804,088	4,235,000	1,613,523	5,848,523
2012	1,452,500	717,822	1,452,500	717,822	2,905,000	1,435,644	4,340,644
2013-2017	5,375,000	2,772,411	5,375,000	2,772,411	10,750,000	5,544,822	16,294,822
2018-2022	4,017,500	1,800,894	4,017,500	1,800,894	8,035,000	3,601,788	11,636,788
2023-2027	3,735,000	720,958	3,735,000	720,958	7,470,000	1,441,916	8,911,916
2028	672,500	35,643	672,500	35,643	1,345,000	71,286	1,416,286
Total	$ 24,220,263	$ 9,678,479	$ 23,854,737	$ 9,632,703	$ 48,075,000	$ 19,311,182	$ 67,386,182

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

Note Payable

The general obligation note payable of $1,000,000 to the State Public School Building Authority (SPSBA) dated May 1, 2006 has an interest rate of 4.70% and a maturity date of May 1, 2011. Interest and principal are payable semi-annually beginning November 1, 2006. The note is not secured. The amount drawn on the note was $ 938,674 and $ 61,326 on June 30, 2007 and 2006, respectively.

Early Retirement Payable

In May 1999, HACC offered an Early Retirement Stipend Incentive Plan (ERSIP). This plan offered stipend payments and health care benefits to employees who agreed, by written commitment before June 30, 1999, to retire within the next year. The following details the future estimated payments for the fiscal years ended June 30:

2008	$ 44,474
2009	33,681
2010	837
Total	$ 78,992

The estimated ERSIP liability is discounted at a rate of 5.0% and is $ 73,629 and $ 110,798 at June 30, 2007 and 2006, respectively.

Note 8. Leases

Capital Leases:

The College has entered into capital leases for certain equipment and vehicles. At June 30, the leased assets are as follows:

	2007	**2006**
Amount capitalized	$ 242,735	$ 242,735
Accumulated amortization	(167,918)	(132,490)
Net book value	$ 74,817	$ 110,245

Amortization expense of $ 35,428 for 2007 and 2006 is included with depreciation expense.

The future minimum lease payments under capital leases as of June 30, 2007 are as follows:

2008	$ 28,511
2009	3,699
	32,210
Amount representing interest	(806)
	$ 31,404

Note 8. **Leases (Continued)**

Operating Leases:

The College has entered into noncancelable operating leases for certain campus facilities and equipment. Minimum lease payments in future years are as follows:

2008	$ 4,119,455
2009	3,780,148
2010	3,473,463
2011	3,333,062
2012	3,370,234
2013-2017	12,746,233
2018-2022	9,591,979
2023	164,662
Total minimum lease payments	$ 40,579,236

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

2008	$ 4,091,160
2009	4,091,160
2010	4,091,160
2011	4,091,160
2012	4,091,160
2013-2017	20,455,800
2018-2022	18,878,263
2023-2026	7,937,159
Total minimum lease payments	$ 67,727,022

The total rent under operating leases for the years ended June 30, 2007 and 2006 was $ 7,563,136 and $ 7,476,783, respectively.

Note 9. **Due to the Commonwealth of Pennsylvania**

Amounts due to the Commonwealth of Pennsylvania as of June 30 represent the outstanding deficiency of reimbursable operating and capital expenditures compared to the advances received from the Commonwealth. These payables are included in accounts payable and accrued expenses on the statement of net assets. The following table presents outstanding amounts due to the Commonwealth by originating fiscal year:

	June 30, 2007
2005-2006	$ 43,474
2006-2007	54,866
	$ 98,340

	June 30, 2006
2002 - 2003	$ 62,539
2004 - 2005	80,856
2005 - 2006	43,474
	$ 186,869

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

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

Note 10. Risk Management

The College is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees and students, and natural disasters.

The College has purchased commercial insurance to cover general and professional liability, directors and officers liability, worker's compensation, accident insurance, flood, unemployment compensation, and employees' health coverage. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The College is self-insured for dental coverage. The liability for estimated claims at June 30, 2007 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2007	2006
Beginning balance	$ 106,313	$ 98,746
Claims made/Changes in estimates	475,705	432,819
Claims paid	(465,614)	(425,252)
Ending balance	$ 116,404	$ 106,313

Note 11. Pension Benefits

The Public School Employees' Retirement System ("PSERS") and the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") are governmental cost-sharing multiple-employer defined benefit plans. PSERS provides retirement and disability benefits, legislative mandated *ad hoc* cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535) is the authority by which benefit provisions are established and may be amended. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P. O. Box 125, Harrisburg, Pennsylvania 17108-0125. SERS also provides retirement, death, and disability benefits, and legislative mandated *ad hoc* cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania State Employees' Retirement System, P. O. Box 1147, Harrisburg, Pennsylvania 17108.

The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Most active members contribute at a rate of 5.25 percent of their qualifying compensation. However, effective January 1, 2002, employees could make an election to increase from 5.25% to 6.50%. Members joining the PSERS on or after July 22, 1983 contribute at a rate of 6.25 percent.

Note 11. Pension Benefits (Continued)

However, effective January 1, 2002, employees could make an election to increase from 6.25% to 7.50%. The contribution rate for the College is an actuarially determined rate. The rate at June 30, 2007 and 2006 was 3.23 and 2.35 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2007, 2006, and 2005, were $ 97,215, $ 64,092, and $ 52,463, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan.

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was 2.59 percent for Class A, 3.23 percent for Class AA, 1.90 percent for Class A, and 2.37 percent for Class AA as of June 30, 2007 and 2006, respectively. The College's contributions to SERS for the years ended June 30, 2007, 2006, and 2005, were $ 151,087, $ 97,629, and $ 50,583, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing, multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a rate of 5 percent of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2007, 2006, and 2005 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:

	2007	**2006**	**2005**
College	$ 3,553,544	$ 3,338,738	$ 3,011,476
Employees	3,629,019	3,279,084	2,957,869

Note 12. Contingencies and Commitments

Contingencies

The nature of the educational industry is such that, from time to time, the College is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and/or destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. Management does not expect that the resolution of any other outstanding claims and litigation, of which there are several being defended by the College, will have a material adverse effect on the financial position of the College.

Note 12. Contingencies and Commitments (Continued)

Lancaster County Campus Phase II Construction Disputes

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

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

Commitments

As of June 30, 2007, the College had commitments for the following projects:

	Total Estimated Costs	Total Costs Paid as of June 30, 2007
Master Plan	$ 1,145,149	$ 272,632
York Phase IV	247,600	43,392
	$ 1,392,749	$ 316,024

Note 13. State Appropriations

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

	2007	2006
Included in non-operating revenue:		
Social security reimbursement	$ 2,177,728	$ 2,067,237
Tuition reimbursement	30,109,654	28,541,230
Sub-total	32,287,382	30,608,467
Included in capital appropriations:		
Debt reimbursement	3,471,087	3,135,295
Lease reimbursement	4,028,064	3,971,713
Sub-total	7,499,151	7,107,008
Total	$ 39,786,533	$ 37,715,475

Note 14. Net Assets

College:

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

	2007	2006
Capital assets, net	$ 82,468,537	$ 82,312,857
Bond issue costs, net	324,356	350,808
Bonds payable, net	(29,971,887)	(34,132,083)
Notes payable	0	(61,326)
Capital lease payable	(31,404)	(82,186)
Unspent bond proceeds	243,227	1,283,062
Total	$ 53,032,829	$ 49,671,132

The remaining net assets of the college are considered unrestricted.

HACC Foundation:

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

	2007	2006
Designated for endowment purposes	$ 823,431	$ 704,945
Undesignated	5,220,304	5,409,799
	$ 6,043,735	$ 6,114,744

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

	2007	2006
Provide support for future years' activities	$ 15,851,454	$ 13,403,890

Note 14. Net Assets (Continued)

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

	2007	2006
Scholarships and awards	$ 10,554,823	$ 9,478,311
Academic support	725,737	684,467
Other	464,105	412,689
	$ 11,744,665	$ 10,575,467

Note 15. Restatement of Net Assets

A restatement of the June 30, 2006 financial statements was necessary to properly record the accrued expenses and corresponding state receivable for benefit expenses associated with deferred compensation, which had previously not been recorded.

	As Originally Stated	Restatement	As Restated
Statement of Net Assets - June 30, 2006			
Accounts receivable, net	$ 7,379,585	$ 46,885	$ 7,426,470
Accounts payable and accrued expenses	11,944,183	216,345	12,160,528
Net assets	77,701,683	(169,460)	77,532,223
Statement of Revenues, Expenses and Changes in Net Assets - June 30, 2006			
Beginning net assets - June 30, 2005	70,505,701	(175,484)	70,330,217
State and local grants	6,263,909	(1,667)	6,262,242
Fringe benefits	15,768,223	(7,691)	15,760,532
Change in net assets	7,195,982	6,024	7,202,006

Note 16. Subsequent Event

On July 31, 2007, the College issued College Revenue Bonds Series of 2007 in the amount of $ 18,020,000. These funds will be used to purchase and renovate the property at the Gettysburg Campus location. The future principal payments of this bond are included in the "Future Maturities" schedule in Note 7.

HARRISBURG AREA COMMUNITY COLLEGE
SCHEDULES OF EXPENSES BY FUNCTIONAL CLASSIFICATION - PRIMARY INSTITUTION
Years Ended June 30, 2007 and 2006

2007

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

2006

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

HARRISBURG AREA COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Expenditures
Department of Education:			
Student Financial Aid:			
FSEOG Program	84.007	$ 258,257	$ 258,501
FWS Program	84.033	403,089	375,319
PELL Program	84.063	10,063,487	10,028,176
Perkins loan program	84.038	0	54,824
Federal Academic Second	84.375	40,125	40,125
Total student financial aid		10,764,958	10,756,945
Passed through PHEAA			
Robert C. Byrd Scholarship	84.185A	3,000	3,000
Passed through Pennsylvania Department of Education			
Adult Basic Education	84.002	43,261	43,261
Vocational Educational Grants Perkins III	84.048	969,137	1,030,944
Title III-E Tech Prep Education	84.243	334,786	317,847
Total passed through Pennsylvania department of education		1,347,184	1,392,052
Total Department of Education		12,115,142	12,151,997
Department of Labor:			
Community Based Job Training Grant	17.261	24,907	31,814
Passed through South Central Employment Corporation			
Regional skills specialist services	17.260	317,751	0
Job Training Equipment Grant	17.260	0	193,362
Job skill occupation initiative	17.260	0	250,000
Circuit Rider Program	17.260	14,002	15,400
Circuit Rider Program	17.258	7,001	7,700
Circuit Rider Program	17.259	14,002	15,400
Total passed through South Central Employment Corporation		352,756	481,862
Total Department of Labor		377,663	513,676
National Science Foundation:			
AM Foundation for Education & Career Path	47.076	6,509	10,034
Department of Health and Human Services			
Passed through Pennsylvania Department of Public Welfare			
Job retention, advancement grant	93.558	4,974	0
Keystone education yields success (KEYS)	93.558	176,853	247,686
Total passed through Pennsylvania department of public welfare		181,827	247,686
Passed through Child Care Consultants, Inc.			
South Central Regional Key (CCCI)	93.575	52,203	43,269
Keystone Stars Support (CCRD)	93.575	46,828	40,867
Total passed through child care consultants, inc.		99,031	84,136
Passed through South Central Employment Corporation			
Tuition based SPOC program	93.558	71,943	0
TANF Service Project Agreement (SEC)	93.558	14,519	0
H.E.A.P. Tuition Assistance for Dislocated Worker	93.558	270,942	353,356
HealthCare Academy (ISI)	93.558	35,313	0
Keystone education yields success (KEYS)	93.558	45,854	0
Total passed through south central employment corporation		438,571	353,356
Total Department of Health and Human Services		719,429	685,178
Corporation for National and Community Service			
Americorp grant	94.006	21,154	22,313
Total federal financial assistance		$ 13,239,897	$ 13,383,198

Note 1. General Information/Basis of Accounting

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

Note 2. Relationship to Basic Financial Statements

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the College. It is not intended to, and does not, present either the financial position, changes in fund balances, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's statement of revenues, expenses, and changes in net assets. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards, due to program expenditures exceeding grant or contract budget limitations which are not reported as expenditures in the Schedule of Expenditures of Federal Awards.

Note 3. Federal Student Loan Programs

Total loan expenditures and disbursements of the Department of Education's student financial assistance program for the year ended June 30, 2007 are identified below:

	CFDA Number	**Disbursements**	
Perkins Loan Program	84.038	$ 47,000	New Loans
		7,824	Expenses
		$ 54,824	
Federal Stafford and PLUS Loans	84.032	$ 34,915,052	New Loans

The College administers the Federal Perkins Loan Program via a third party processor; accordingly, the College's basic financial statements include the Federal Perkins advances from the U. S. Government and transactions. The balance of Federal Perkins loans outstanding as of June 30, 2007 was $ 214,825, and is included in the accompanying Statement of Net Assets.

For the Federal Family Education Loan Program (Stafford and PLUS), the College is only responsible for the performance of certain administrative duties and is not considered to be the lender of the funds; therefore, the net assets and transactions of this program are not included in the College's basic financial statements or in the schedule of expenditures of federal awards.

Note 4. Basis of Presentation

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

Note 5. Administrative Expenses

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

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

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

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited the financial statements of the Harrisburg Area Community College as of and for the year ended June 30, 2007, and have issued our report thereon dated October 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harrisburg Area Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Harrisburg Area Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harrisburg Area Community College's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement to the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting (2007-1).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

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

Board of Trustees
Harrisburg Area Community College

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrisburg Area Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of Harrisburg Area Community College in a separate letter dated October 16, 2007.

Harrisburg Area Community College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Harrisburg Area Community College's response and, accordingly, we express no opinion on it.

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 16, 2007

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

Compliance

We have audited the compliance of the Harrisburg Area Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Harrisburg Area Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Harrisburg Area Community College's management. Our responsibility is to express an opinion on the Harrisburg Area Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Harrisburg Area Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Harrisburg Area Community College's compliance with those requirements.

In our opinion, Harrisburg Area Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Harrisburg Area Community College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Harrisburg Area Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Board of Trustees
Harrisburg Area Community College

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

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

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

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 16, 2007

HARRISBURG AREA COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

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?	X yes	no
	Significant deficiencies identified not considered to be material weaknesses?	yes	X None reported
(iii)	Noncompliance material to financial statements noted?	yes	X no

Federal Awards:

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

(vii) Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
	Student Financial Aid:
84.048	Vocational Eductional Grants – Perkins III
84.243	Title III – Tech Prep Education
84.063	PELL Program
84.033	FWS Program
84.038	Perkins Loan Program

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$ 401,496	
(ix)	Auditee qualified as low-risk auditee?	X yes	no

Part II

Financial Statement Findings Section:

2007-1 – Construction / Capital Asset Management

Condition: Through the review of capital asset procedures, it was determined that payments for larger capital asset projects are being capitalized and depreciated before the asset is placed in service.

In addition, there were several construction invoices which amounted to $ 355,732 that were not properly accrued at year end.

Criteria: For capital projects that include multiple invoices/payments, one combined total should be recorded in the depreciation schedule and should only be placed in service (depreciation process started) once the entire project is completed. A process should be in place to accumulate costs for these types of projects in construction-in-process accounts and should be recorded as such on the financial statements.

Internal controls should be in place to ensure that all accounts payable and expenses are properly recorded in the correct fiscal year.

Cause: It appears that a breakdown in communication is the cause of these issues, both internally and externally. Inadequate communication was made with the external construction manager to ensure all invoices were received and accrued at year end. In addition, communication of the status of projects and an understanding of which projects should be recorded as construction-in-process is not being properly communicated internally to ensure that assets are recorded and placed in service at the proper time.

Effect: The financial statements could be materially misstated.

Recommendation: Procedures should be implemented requiring verification with all construction managers at year end that all invoices have been recorded in the proper fiscal year. The construction invoices themselves should also be reviewed to determine that all costs, including any retainage, through June 30 is properly recorded. In addition, a complete understanding of any open projects should be communicated within the finance department to ensure that all projects are properly recorded at June 30, including the correct amount and appropriate classification as either construction-in-process or capital assets being depreciated.

HACC Response: Additional internal controls and procedures have been implemented to verify the status of all projects as of June 30 each year to ensure accruals, retainage payables, and construction-in-progress are properly recorded. Capital asset projects will be reviewed thoroughly to confirm assets are not depreciated prematurely within the fixed asset system.

Federal Awards Findings Section:

None

HARRISBURG AREA COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2007

Reference Number	Finding

There were no findings for the year ended June 30, 2006.