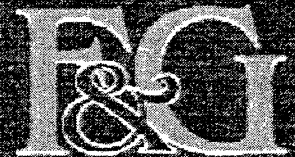


**ERIE COUNTY TECHNICAL SCHOOL
AUDITED FINANCIAL STATEMENTS**

JUNE 30, 2004



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

ERIE COUNTY TECHNICAL SCHOOL
AUDITED FINANCIAL STATEMENTS
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FOR THE YEAR ENDED JUNE 30, 2004

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Independent Auditors' Report

To The Members of the Operating Committee
Erie County Technical School
Erie, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Erie County Technical School as of and for the year ended June 30, 2004, which collectively comprises the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Erie County Technical School as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing standards*, we have also issued our report dated August 4, 2004, on our consideration of the Erie County Technical School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Independent Auditors' Report
(Continued)

The management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 44 are not a required part of the basic financial statements but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

August 4, 2004
Erie, Pennsylvania

ERIE COUNTY TECHNICAL SCHOOL
Management's Discussion and Analysis (MD&A)
June 30, 2004

The discussion and analysis of Erie County Technical School's financial performance provides an overall review of the area vocational technical school's (AVTS) financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the AVTS financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the AVTS financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

Joint Venture

Erie County Technical School is a joint venture of eleven public school districts in Erie County, Pennsylvania organized under the Public School Code of Pennsylvania. The school provides vocational and technical training programs for high school students who are residents of the participating school districts and out of school youths and adults. Each district is responsible for a share of the operating budget based on student enrollment using a formula described within the Articles of Agreement. The participating districts include: Fairview School District, Fort LeBoeuf School District, General McLane School District, Girard School District, Harbor Creek School District, Iroquois School District, Millcreek Township School District, North East School District, Northwestern School District, Wattsburg Area School District, and Union City Area School District.

The division within the school that operates adult training is Regional Career and Technical Center (RCTC). RCTC receives no school district funding and operates on student paid tuition, and federal and state grants that become available.

Our Mission

The mission of the Erie County Technical School is to educate people to have the skills and attitudes to be successful in their choices of career paths by providing a cooperative educational environment.

Our Vision

The Erie County Technical School, while continuing to serve our existing students, will serve the career preparation needs of new groups of students. We expect to serve more students who will pursue postsecondary education, as well as those who have yet to decide on their career or educational plans. Students will come to our school because we offer programs that help them pursue their career paths, lead them to respected occupations, and emphasize the need for lifelong learning.

We also expect to serve as the hub for career development of all students in our service area. It is imperative that students at all grade levels participate in a coordinated career development program so that they make informed career decisions. In support of this career development program and our overall mission, we will work to convince students, their parents and the public that career and technical education is good for everyone.

Our Quality Policy

The Erie County Technical School is committed to providing career and technical education that exceeds the expectations of our customers while continually measuring our progress and improving our programs and services.

Our Principles

- Ensure the safety and welfare of our students.
- Provide opportunities for learning.
- Protect the public trust.
- Provide for the transition from school to work or additional schooling.
- Embrace diversity

FINANCIAL HIGHLIGHTS

District contributions:

The largest source of revenue comes from the participating school districts to support the secondary education programs and totaled \$2,533,246 for 2003-2004, (\$2,447,569 for 2002-2003). This amount is based on a funding formula that is agreed upon by all districts as part of the Articles of Agreement. The formula was revised beginning with school year 2001-2002 with a three-year phase-in to eliminate the real estate market value component of the calculation. For 2003-2004 the formula was fully phased in with AVTS participation and population pool equally weighted at 50% each.

Additional revenue of \$245,246 for 2003-2004, (\$165,565 for 2002-2003), from school districts is for students enrolled in a Career and Alternative Education Program for Disruptive Youth.

Also revenue of \$15,737 was received from Union City Area School District General Obligation Bonds, series 1999. This is a seven-year note to purchase a share of the AVTS facility equity upon re-entry of their students into the secondary program.

2003-2004 total contributions from participating school districts were over 73% of the secondary program's revenue, (68% for 2002-2003).

Regional Career and Technical Center (RCTC):

During 2003-2004 the adult training programs continued as part-time, certificate classes following the closing in 2002 of the full-time training programs that were housed in the Skill Center Building and then the closing of the Cosmetology full-time program in June 2003 due to declining enrollments.

Skill Center Building:

The Skill Center Building remained mostly out of service for 2003-2004 with all the Erie County Technical School programs being housed to the main high school building.

A small part of the building is leased to Northwest Tri-County Intermediate Unit for supply storage.

In August 2003 the JOC sold a large amount of the training machinery and tooling that formerly was used in the discontinued adult training programs. An auction of the equipment resulted in sales revenue of \$42,368.

Millcreek Township School District leased space in the Skill Center Building for their North Coast Charter School, for the 2003-2004 school-year.

The Northwest Tri-County Intermediate Unit is leasing the former North Coast space beginning in the fall of 2004 for classrooms for a regional collaborative effort for advanced courses.

Northwestern Region Employee Benefit Trust (NOREBT):

The AVTS participates in a self-funded insurance trust for the purpose of providing medical, prescriptions, dental and vision plans to eligible employees and dependents. The AVTS makes contributions to the trust for payment of claims, expenses, and stop-loss insurance. At June 30, 2004, the AVTS asset share of the trust balance was \$552,015 and is recorded as a prepaid deposit on the Balance Sheet and Fund Balance Reserve. This reserve is being maintained to fund future claims.

Several area school districts, area technical schools, and Northwestern Tri-County Intermediate Unit are members of NOREBT and share in the risk pool.

FINANCIAL STATEMENTS

The financial statements consist of Independent Auditors' Report, Management Discussion and Analysis, and a series of financial statements and notes to those financial statements. These statements are organized so that the reader can understand Erie County Technical School as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements – the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the AVTS overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the AVTS operations in more detail than the government-wide statements. The governmental funds statements tell how general AVTS services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the AVTS operates like a business. For this AVTS this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the AVTS acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1
Required components of
Erie County Technical School's
Financial Report

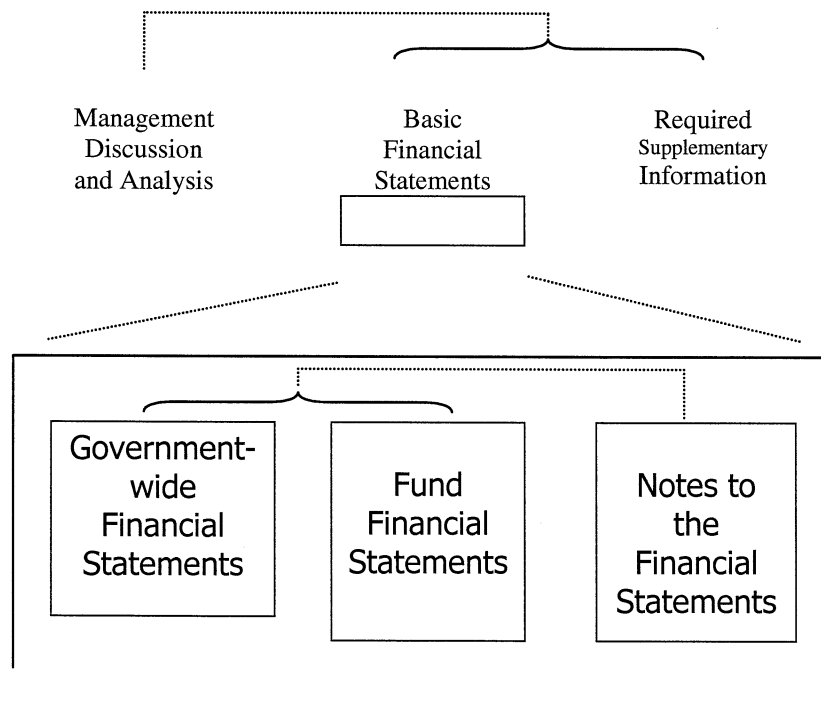


Figure A-2 summarizes the major features of the AVTS financial statements, including the portion of the AVTS they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Erie County Technical School's
Government-wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire AVTS (except fiduciary funds)	The activities of the AVTS that are not proprietary or fiduciary, such as education, administration and community services	Activities the AVTS operates similar to private business – Food Services	Instances in which the AVTS is the trustee or agent to someone else's resources – Scholarship Funds
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the AVTS as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the AVTS net assets and how they have changed. Net assets, the difference between the AVTS assets and liabilities, are one way to measure the AVTS financial health or position.

Over time, increases or decreases in the AVTS net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the AVTS, you need to consider additional non-financial factors, such as changes in student participation, student population of member districts, and the performance of the students.

The government-wide financial statements of the AVTS are divided into two categories:

- Governmental activities – All of the AVTS basic services are included here, such as instruction, administration and community services. Participating school district contributions, state and federal subsidies and grants finance most of these activities.
- Business type activities –The AVTS operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The AVTS fund financial statements provide detailed information about the most significant funds – not the AVTS as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the AVTS activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the AVTS operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the AVTS programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the AVTS activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the AVTS charges customers for services it provides – whether to outside customers or to other units in the AVTS – these services are generally reported in proprietary funds. The Food Service Fund is the AVTS proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The AVTS is the trustee, or fiduciary, for some scholarship funds. All of the AVTS fiduciary activities are report in separate Statements of Fiduciary Net Assets. We exclude these activities from the AVTS other financial statement because the AVTS cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE AVTS AS A WHOLE

The AVTS total net assets were \$7,130,084 at June 30, 2004 (\$ 7,461,090 at June 30, 2003). Depreciation, sales, and disposals of assets were the cause of the decline in values. The school conducted a major effort during 2003-2004 to insure that machinery and equipment is recorded properly and is verifiable.

Table A-1
Fiscal Year ended June 30, 2004
Net Assets

	Governmental Activities	Business-type Activities	Total	Prior Year Total 6/30/2003
Current and other assets	\$ 1,701,889	\$ 9,139	\$ 1,711,028	\$ 1,691,780
Capital assets	6,136,967	15,253	6,152,220	6,515,715
Total assets	<u>\$ 7,838,856</u>	<u>\$ 24,392</u>	<u>\$ 7,863,248</u>	<u>\$ 8,207,495</u>
Current and other liabilities	\$ 436,356	\$ 3,321	\$ 439,677	\$ 419,924
Long-term liabilities	293,487	-	293,487	326,481
Total Liabilities	<u>\$ 729,843</u>	<u>\$ 3,321</u>	<u>\$ 733,164</u>	<u>\$ 746,405</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 5,968,859	\$ 15,253	\$ 5,984,112	\$ 6,322,343
Restricted	236,441	-	236,441	301,584
Unrestricted	903,713	5,818	909,531	837,163
Total Net Assets	<u>7,109,013</u>	<u>21,071</u>	<u>7,130,084</u>	<u>7,461,090</u>
Total Liabilities and Net Assets	<u>\$ 7,838,856</u>	<u>\$ 24,392</u>	<u>\$ 7,863,248</u>	<u>\$ 8,207,495</u>

Most of the AVTS net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are a combination of designated and undesignated amounts. The designated balances are amounts set-aside to fund future equipment purchases or capital projects as may be planned by the AVTS.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the AVTS activities that are supported by other general revenues. The largest general revenue category is the contributions from the participating school districts.

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Fiscal Year ended June 30, 2004
Changes in Net Assets

	Governmental Activities	Business-type Activities	Total	Prior Year 6/30/2003
Revenues				
Program revenues				
Charges for services	\$ 184,213	\$ 65,669	\$ 249,882	\$ 260,800
Operating grants and contributions	1,087,965	38,222	1,126,187	1,177,008
General revenues	2,827,267	13	2,827,280	2,796,135
Total revenues	4,099,445	103,904	4,203,349	4,233,943
Expenses				
Instruction	2,381,634	-	2,381,634	2,508,437
Instructional student support	460,901	-	460,901	571,296
Administrative and financial support	703,236	-	703,236	600,894
Operation and maintenance of plant	645,786	-	645,786	643,470
Central Services	216,854	-	216,854	206,690
Student activities	1,684	-	1,684	1,631
Community services	1,832	-	1,832	2,047
Interest on long-term debt	10,634	-	10,634	12,178
Other	-	-	-	15,527
Food Services	-	111,794	111,794	100,736
Total expenses	4,422,561	111,794	4,534,355	4,662,906
Increase (decrease) in net assets	\$ (323,116)	\$ (7,890)	\$ (331,006)	\$ (428,963)

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the AVTS.

Table A-3 shows the AVTS largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local revenue and other miscellaneous revenues.

Table A-3
Fiscal Year ended June 30, 2004
Governmental Activities

Functions/Programs	Total Cost of Services	Net Cost of Services	Prior Year 6/30/03 Net Cost
Instruction	\$ 2,381,634	\$ 1,121,226	\$ 1,178,457
Instructional student support	460,901	460,901	571,296
Administrative	703,236	703,236	600,894
Operation and maintenance	645,786	634,016	634,562
Central Services	216,854	216,854	206,690
Student activities	1,684	1,684	1,631
Community services	1,832	1,832	2,047
Interest on long-term debt	10,634	10,634	12,178
Other	-	-	15,527
Total governmental activities	\$ 4,422,561	\$ 3,150,383	\$ 3,223,282
Less:			
Unrestricted grants, subsidies		-	-
Total needs from local and other revenues		\$ 3,150,383	\$ 3,223,282

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the AVTS. The Food Service operation experienced sharply increased costs for some food products, especially dairy items during 2003-2004. The program also purchased a point-of-sale software system for the recording and tracking of sales and revenue. The system will be fully operational in the fall of 2004. Lunch prices will also be increased beginning in the fall of 2004.

Table A-4
Fiscal Year ended June 30, 2004
Business-type Activities

Functions/Programs	Total Cost of Services	Net Cost of Services	Prior Year- Net Cost Of Services 6/30/2003
Food Services	\$ 111,794	\$ 7,903	\$ 1,816
Less:			
Investment earnings	-	(13)	(14)
Total business-type activities	\$ 111,794	\$ 7,890	\$ 1,802

The Statement of Revenues, Expenses and Changes in Fund Net Assets for this proprietary fund will further detail the actual results of operations.

Fund Balances:

At June 30, 2004, the AVTS governmental funds reported a combined fund balance of \$1,311,294, (\$1,291,864 at June 30, 2003).

General Fund:

The AVTS General Fund's fund balance includes reserves for inventories (\$100,074), NOREBT self insurance trust (\$552,015), and RCTC adult training (\$122,856). The unreserved balance of \$299,908 is available for future years' budgeting. This amount is used to balance the amount required in future years from school districts to fund the secondary program. The unreserved fund balance is 7% of total 2003-04 General Fund expenditures.

Capital Reserve Fund:

The AVTS is preparing for future capital projects and for new and replacement equipment purchases each year. In order to fund these projects and equipment without the need for additional school district contributions or borrowing issues, the AVTS has established this fund and makes transfers from the General Fund to this fund. The General Fund transferred \$56,323 into Capital Reserve. Major expenditures from Capital Reserve of \$123,847 included: continuing debt payment for renovations at the Skill Center, instructional and technological equipment. Two major projects were approved for \$80,161 but completed in summer 2004 and will be paid from Capital Reserve in 2004-05: driveway re-surfacing, and a cooler/freezer for Culinary Arts program. The fund balance in Capital Reserve is expected to decline during 2004-2005.

General Fund Budget

During the fiscal year, the Joint Operating Committee (JOC) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the AVTS. A schedule showing the AVTS original and final budget amounts compared with amounts actually paid and received is provided.

The AVTS applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted expenditures and other financing uses change to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses also occur during the year. The most significant transfers may occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that may be transferred into expenditure accounts for planned expenditures, upon approval of the JOC. These amounts will only be appropriated into expenditure categories when the expenditure is necessary for the operation of the AVTS. Any budget reserve amount not appropriated during the year will become part of the unreserved fund balance and available for future years' budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the AVTS had \$ 6,152,220 invested in a broad range of capital assets, including land, buildings and machinery and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$363,495 from June 30, 2003.

Table A-5
Governmental Activities
Capital assets - net of depreciation

	<u>2004</u>	<u>2003</u>
Land	\$ 304,831	\$ 304,831
Buildings	4,928,016	5,179,555
Machinery & Equipment	904,120	1,011,104
Vehicles	<u>-</u>	<u>1,250</u>
Total Capital Assets	<u>\$ 6,136,967</u>	<u>\$ 6,496,740</u>

Debt Administration

Bond Obligations - As of June 30, 2002, and June 30, 2003, and June 30, 2004 the AVTS had no outstanding bond obligations.

Capital Lease- On September 23, 1999 the AVTS entered into a capital lease to upgrade energy systems and other building improvements. Payments began March 2000 and continue through December 2009. The present value at June 30, 2004 of the remaining lease payments (net of interest) is \$168,108.

Other obligations include accrued vacation pay and sick leave for specific employees of the AVTS.

Next Year's General Fund Budget - 2004-2005

For the third time in four years, the administration recommended an increase in the contributions from our participating school districts. The reason for the proposed increase is to improve our fiscal stability. An increase from our participating districts coupled with cost reductions, brings the 2004-2005 Budget within \$13,000 of being a balanced budget.

Initial discussions with the superintendents involved an increase for 2004-2005 of 12.54%. Conversations with superintendents moved the 12.54% increase down to a 9.93% increase. The move was accomplished by moving the expense for three items from the General Fund to the Capital Reserve Fund. Those three expenses are instructional equipment (\$60,000), front driveway repair (\$50,000) and freezer repair (\$30,000).

It should be noted that \$75,000 of the increase is actually the movement of an expense to the districts from the Intermediate Unit budget to the Technical School budget. The costs associated with a Special Education Liaison are being “adopted” in the ECTS budget. The movement of the cost is tied to the redesign of our special education services and our action plan for curriculum management and a reading program.

As you review this budget, you will notice there is a zero-dollar fund balance at the end of the 2004-2005 fiscal year. Typically, school budgets end the year with a fund balance that is carried over into the next year. Operationally we cannot access funds in a fund balance, but we can transfer funds from a budgetary reserve into our expenditure plan. In the 2004-2005 Budget, you will see a Budgetary Reserve of \$175,000, which is 4.31% of Secondary Program Expenditures.

The 2004-2005 Budget is the first year for implementation of the school’s quality action plan. There are four action plan items in the budget. They total \$29,000 and address instructional materials, reading instruction and staff development.

Table A-6
General Fund
Summary Budget 2004-2005

General Fund	General	Secondary	RCTC
2003-04 Beginning Fund Balance - Actual	372,569	268,754	103,815
2003-04 Change in Fund Balance - Estimated	-67,780	-79,865	12,085
2004-05 Beginning of Year Fund Balance - July 1, 2004	304,789	188,889	115,900
Revenue			
6000 Local Sources	275,000	70,000	205,000
6946 Districts-Alternative Education	228,000	228,000	0
6946 Union City Area S.D.-Equity Buy Back	15,737	15,737	0
6946 Districts-Operating Contributions	2,784,868	2,784,868	0
7000 State Sources	774,999	618,809	156,190
8000 Federal Sources	323,571	323,571	0
9000 Other Financing Sources	5,000	5,000	0
2004-05 Total Revenue	4,407,175	4,045,985	361,190
2004-05 Total Revenue & Beginning Fund Balance	4,711,964	4,234,874	477,090
Expenditures			
1300 Vocational Education	1,845,506	1,845,506	0
1400 Alternative Education	248,480	248,480	0
1600 Adult Education	145,115	0	145,115
2100 Support Services--Pupil Personnel	386,834	328,106	58,728
2200 Support Services--Instructional Staff	159,679	159,679	0
2300 Support Services--Administration	501,774	374,562	127,212
2400 Support Services--Pupil Health	800	800	0
2500 Support Services--Business	142,856	142,856	0
2600 Operation and Maintenance of Plant Services	683,874	683,874	0
2700 Student Transportation Services	1,500	0	1,500
2800 Support Services--Central	272,319	272,319	0
3200 Student Activities	1,692	1,692	0
3300 Community Services	2,000	0	2,000
4400 Architecture and Engineering Services	2,000	2,000	0
2004-05 Subtotal Expenditures	4,394,429	4,059,874	334,555
5900 Budgetary Reserve	201,635	175,000	26,635
2004-05 Total Expenditures & Budgetary Reserve	4,596,064	4,234,874	361,190
2004-05 Change in Fund Balance	-188,889	-188,889	0
2004-05 End of Year Fund Balance - June 30, 2005	115,900	0	115,900

CONTACTING THE TECHNICAL SCHOOL FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the AVTS finances and to show the Joint Operating Committee's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Paul D. Fritz, Business Manager and Secretary, 8500 Oliver Road, Erie, PA 16509; telephone: 814-864-0641, email: pfritz@ects.org.

ERIE COUNTY TECHNICAL SCHOOL

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 872,063	\$ 5,751	\$ 877,814
Due from other Governments	56,567	-	56,567
Other receivables, net	121,170	-	121,170
Inventories	100,074	3,388	103,462
Prepaid expenses	552,015	-	552,015
Total Current Assets	<u>1,701,889</u>	<u>9,139</u>	<u>1,711,028</u>
Non-Current Assets			
Land	304,831	-	304,831
Capital assets, net	5,832,136	15,253	5,847,389
Total Non-Current Assets	<u>6,136,967</u>	<u>15,253</u>	<u>6,152,220</u>
Total Assets	<u>\$ 7,838,856</u>	<u>\$ 24,392</u>	<u>\$ 7,863,248</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 177,558	\$ -	\$ 177,558
Accrued salaries and benefits	212,889	3,321	216,210
Other current liabilities	19,153	-	19,153
Lease obligation payable	26,756	-	26,756
Total Current Liabilities	<u>436,356</u>	<u>3,321</u>	<u>439,677</u>
Non-Current Liabilities			
Capital lease payable	141,352	-	141,352
Compensated Absences	152,135	-	152,135
Total Non-Current Liabilities	<u>293,487</u>	<u>-</u>	<u>293,487</u>
Total Liabilites	<u>729,843</u>	<u>3,321</u>	<u>733,164</u>
NET ASSETS			
Investment in capital assets, net of related debt	5,968,859	15,253	5,984,112
Restricted for capital projects	236,441	-	236,441
Unrestricted	903,713	5,818	909,531
Total Net Assets	<u>7,109,013</u>	<u>21,071</u>	<u>7,130,084</u>
Total Liabilities and Net Assets	<u>\$ 7,838,856</u>	<u>\$ 24,392</u>	<u>\$ 7,863,248</u>

The accompanying notes are an integral part of these financial statements.

Statement of Activities

ERIE COUNTY TECHNICAL SCHOOL

Statement of Activities For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction	\$ 2,381,634	\$ 172,443	\$ 1,087,965	\$ -
Pupil personnel	371,740	-	-	-
Instructional staff	89,161	-	-	-
Administration and business	703,236	-	-	-
Operation and Maintenance of plant services	645,786	11,770	-	-
Central services	216,854	-	-	-
Student activities	1,684	-	-	-
Community services	1,832	-	-	-
Interest on debt	10,634	-	-	-
Total Governmental Activities	4,422,561	184,213	1,087,965	-
Business-Type Activities				
Food service	111,794	65,669	38,222	-
Total Primary Government	<u>\$ 4,534,355</u>	<u>\$ 249,882</u>	<u>\$ 1,126,187</u>	<u>\$ -</u>
General Revenues:				
Support-local districts				
Interest earnings				
Miscellaneous income				
Total General Revenues				
Change in Net Assets				
Net Assets, July 1, 2003				
Net Assets, June 30, 2004				

The accompanying notes are an integral part of these financial statements.

Net (Expense)/Revenue and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (1,121,226)	\$ -	\$ (1,121,226)
(371,740)	-	(371,740)
(89,161)	-	(89,161)
(703,236)	-	(703,236)
(634,016)	-	(634,016)
(216,854)	-	(216,854)
(1,684)	-	(1,684)
(1,832)	-	(1,832)
(10,634)	-	(10,634)
(3,150,383)	-	(3,150,383)
-	(7,903)	(7,903)
<u>\$ (3,150,383)</u>	<u>\$ (7,903)</u>	<u>\$ (3,158,286)</u>
\$ 2,794,229	\$ -	\$ 2,794,229
7,904	13	7,917
25,134	-	25,134
2,827,267	13	2,827,280
(323,116)	(7,890)	(331,006)
7,432,129	28,961	7,461,090
<u>\$ 7,109,013</u>	<u>\$ 21,071</u>	<u>\$ 7,130,084</u>

ERIE COUNTY TECHNICAL SCHOOL
Balance Sheet-Governmental Funds
June 30, 2004

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 575,204	\$ 296,859	\$ 872,063
Intergovernmental Receivables	56,567	-	56,567
Other Receivables (Net)	121,170	-	121,170
Inventories	100,074	-	100,074
Prepaid Items	552,015	-	552,015
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,405,030</u>	<u>\$ 296,859</u>	<u>\$ 1,701,889</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 117,140	\$ 60,418	\$ 177,558
Accrued Salaries and Benefits	212,889	-	212,889
Other Current Liabilities	148	-	148
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>330,177</u>	<u>60,418</u>	<u>390,595</u>
Fund Balance			
Reserved for Capital Projects	\$ -	\$ 236,441	\$ 236,441
Reserved for Prepaid Items	552,015	-	552,015
Reserved for Inventories	100,074	-	100,074
Reserved for Regional Career and Technical Center	122,856	-	122,856
Unreserved	299,908	-	299,908
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,074,853</u>	<u>236,441</u>	<u>1,311,294</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 1,405,030</u>	<u>\$ 296,859</u>	<u>\$ 1,701,889</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2004

Differences in amounts reported for governmental activities in the statement of net assets:

Fund balances - governmental funds	\$ 1,311,294
Capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds	6,136,967
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(339,248)</u>
Net assets of governmental activities	<u>\$ 7,109,013</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement Of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 214,870	\$ 2,381	\$ 217,251
State Sources	764,394	-	764,394
Federal Sources	323,571	-	323,571
Support-Local Districts	2,794,229	-	2,794,229
Total Revenues	<u>4,097,064</u>	<u>2,381</u>	<u>4,099,445</u>
EXPENDITURES			
Instruction	2,085,906	-	2,085,906
Support Services	1,942,465	-	1,942,465
Noninstructional Services	3,516	-	3,516
Facilities Acquisition, Construction	1,026	87,949	88,975
Debt Service	-	35,898	35,898
Total Expenditures	<u>4,032,913</u>	<u>123,847</u>	<u>4,156,760</u>
Excess of Revenues Over (Under) Expenditures	<u>64,151</u>	<u>(121,466)</u>	<u>(57,315)</u>
Other Financing Sources (Uses)			
Interfund Transfers	(56,323)	56,323	-
Sale of Fixed Assets	42,368	-	42,368
Change in Inventory	34,377	-	34,377
Total Other Financing Sources (Uses)	<u>20,422</u>	<u>56,323</u>	<u>76,745</u>
Net Change in Fund Balance	84,573	(65,143)	19,430
Fund Balance - July 1, 2003	<u>990,280</u>	<u>301,584</u>	<u>1,291,864</u>
Fund Balance - June 30, 2004	<u>\$ 1,074,853</u>	<u>\$ 236,441</u>	<u>\$ 1,311,294</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Differences in amounts reported for governmental activities in the statement of activities:

Net change in fund balances - total governmental funds		\$ 19,430
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		92,390
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(409,844)
The net effect of various transactions involving capital assets (i.e. sales or trade-ins) is to decrease net assets		(42,319)
Repayment of long-term debt is reported as expenditures in governmental funds, but a reduction of long-term liabilities in the Statement of Net Assets. In current year, these amounts are:		
Capital lease payments	25,264	
Change in compensated absences	<u>(8,037)</u>	<u>17,227</u>
Change in net assets of governmental activities		<u>\$ (323,116)</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 289,268	\$ 289,268	\$ 214,870	\$ (74,398)
State Sources	854,190	786,199	764,394	(21,805)
Federal Sources	319,770	323,571	323,571	-
Support-Local Districts	2,726,851	2,726,851	2,794,229	67,378
Total Revenues	<u>4,190,079</u>	<u>4,125,889</u>	<u>4,097,064</u>	<u>(28,825)</u>
EXPENDITURES				
Instruction	2,159,970	2,115,035	2,085,906	29,129
Support Services	1,956,219	1,961,581	1,942,465	19,116
Noninstructional Services	10,698	3,685	3,516	169
Facilities Acquisition, Construction	3,000	1,000	1,026	(26)
Total Expenditures	<u>4,129,887</u>	<u>4,081,301</u>	<u>4,032,913</u>	<u>48,388</u>
Excess of Revenues Over (Under) Expenditures	<u>60,192</u>	<u>44,588</u>	<u>64,151</u>	<u>19,563</u>
Other Financing Sources (Uses)				
Interfund Transfers	(10,574)	(56,323)	(56,323)	-
Sale of Fixed Assets	5,000	5,000	42,368	37,368
Changes in Inventory	-	-	34,377	34,377
Budget Reserve	<u>(285,294)</u>	<u>(223,941)</u>	<u>-</u>	<u>223,941</u>
Total Other Financing Sources (Uses)	<u>(290,868)</u>	<u>(275,264)</u>	<u>20,422</u>	<u>295,686</u>
Net Change in Fund Balance	(230,676)	(230,676)	84,573	315,249
Fund Balance - July 1, 2003	<u>990,280</u>	<u>990,280</u>	<u>990,280</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ 759,604</u>	<u>\$ 759,604</u>	<u>\$ 1,074,853</u>	<u>\$ 315,249</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement of Net Assets - Proprietary Fund
June 30, 2004

	<u>Food Service</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 5,751
Inventories	<u>3,388</u>
Total Current Assets	<u>9,139</u>
Non Current Assets	
Machinery and Equipment (Net of Accumulated Depreciation)	<u>15,253</u>
Total Assets	<u><u>\$ 24,392</u></u>
LIABILITIES	
Current Liabilities	
Accrued Salaries and Benefits	<u>\$ 3,321</u>
Total Current Liabilities	<u>3,321</u>
NET ASSETS	
Invested in Capital Assets Net of Related Debt	15,253
Unrestricted	<u>5,818</u>
Total Net Assets	<u>21,071</u>
Total Liabilities and Net Assets	<u><u>\$ 24,392</u></u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement of Revenues, Expenditures and Changes
in Net Assets - Proprietary Fund
For the Year Ended June 30, 2004

	<u>Food Service</u>
Operating Revenues	
Food Service Revenue	<u>\$ 65,669</u>
Total Operating Revenues	<u>65,669</u>
Operating Expenses	
Personnel Services-Salaries	31,928
Personnel Services-Employee Benefits	12,397
Supplies and Food	60,120
Depreciation	3,722
Other	<u>3,627</u>
Total Operating Expenses	<u>111,794</u>
Operation Income (Loss)	<u>(46,125)</u>
Nonoperating Revenues	
Earnings on Investments	13
State Sources	4,792
Federal Sources	<u>33,430</u>
Total Nonoperating Revenues	<u>38,235</u>
Change in Net Assets	(7,890)
Net Assets, July 1, 2003	<u>28,961</u>
Net Assets, June 30, 2004	<u><u>\$ 21,071</u></u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2004

Cash Flows from Operating Activities:

Cash Received from Users	\$ 73,643
Cash Payments to Employees for Services	(44,730)
Cash Payments to Suppliers for Goods and Services	(57,770)
Cash Payments for Operating Expenses	(3,627)
Net Cash (Used for) Operating Activities	<u>(32,484)</u>

Cash Flows from Noncapital Financing Activities:

State Sources	4,792
Federal Sources	33,430
Net Cash Provided by Noncapital Financing Activities	<u>38,222</u>

Cash Flows from Investing Activities:

Earnings on Investments	<u>13</u>
Net Cash Provided by Investing Activities	<u>13</u>

Net Increase in Cash 5,751

Cash at Beginning of Year -

Cash at End of Year \$ 5,751

Reconciliation of Operating Income to Net Cash (Used for)
Operating Activities:

Operating Income (Loss)	\$ (46,125)
Adjustment to Reconcile Operating Income (Loss) to	
Net Cash (Used for) Operating Activities-Depreciation	3,722
(Increase) Decrease Interfund Receivables	7,833
(Increase) Decrease Other Receivables	141
(Increase) Decrease in Inventories	2,350
Increase (Decrease) in Interfund Payables	(213)
Increase (Decrease) in Accrued Expenses	<u>(192)</u>
Net Cash (Used for) Operating Activities	<u><u>\$ (32,484)</u></u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL

Statement of Fiduciary Net Assets -

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	Student Activities
Assets		
Cash and Cash Equivalents	\$ 211,058	\$ 2,572
Total Assets	<u>\$ 211,058</u>	<u>\$ 2,572</u>
Liabilities		
Due to Student Groups	\$ -	\$ 2,572
Total Liabilities	<u>-</u>	<u>2,572</u>
Net Assets		
Held in Trust for Scholarships	<u>211,058</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 211,058</u>	<u>\$ 2,572</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For the Year Ended June 30, 2004

	Private Purpose Trust
Additions:	
Interest	\$ 2,377
Contributions	<u>4,916</u>
Total Additons	<u>\$ 7,293</u>
Deductions:	
Monies paid to or on behalf of students	<u>\$ 1,651</u>
Total Deductions	<u>\$ 1,651</u>
Change in Net Assets	\$ 5,642
Net Assets, July 1, 2003	<u>205,416</u>
Net Assets, July 1, 2004	<u><u>\$ 211,058</u></u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY TECHNICAL SCHOOL
Notes to Financial Statements
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Erie County Technical School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes Erie County Technical School includes all funds that are controlled by or dependent on the School. Control by or dependence on the School was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the School, obligation of the School to finance any deficits that may occur or receipt of significant subsidies from the School. As required by generally accepted accounting principles, the financial statement of the reporting entity includes those of the primary government (Erie County Technical School) and its blended component unit, the Erie County Technical School Foundation.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental Activities* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct Expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary funds of the School. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Additionally, the School reports the following other fund types:

Proprietary Funds account for a governments activities that are operated like private businesses, charging customers a fee in return for goods or services. Proprietary funds employ the *economic resources measurement focus and accrual basis of accounting*.

Trust Funds account for the activities of the government that are fiduciary in nature, except those reported as agency funds. The government acts as a trustee for resources that belong to others. Trust funds employ the *economic resources measurement focus and accrual basis of accounting*.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are merely clearing accounts for assets held by a government as an agent for individuals, private organizations, or other governments.

D. Cash and Cash Equivalents

Cash and cash equivalents are cash on hand as well as demand deposits, investments, and certificates of deposit included in pooled cash and non-pooled investments with original maturities of three months or less.

E. Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School is permitted to invest its monies as follows:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

All investments are reported at fair value. Fair value is determined using selected basis, as follows; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

G. Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has an inventory balance as of June 30, 2004.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2004. The inventory consisted of government donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School does not have any infrastructure assets. The School maintains a \$500 threshold for additions to equipment. Buildings and improvements are capitalized when the value is \$25,000 or greater. Vehicles are capitalized if over \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets life, are not capitalized.

Depreciation has been provided using the straight-line method. The estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Life - Years</u>
Buildings	30-40
Equipment	5-20
Autos, trucks, and vans	8
Improvements	20

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Encumbrances

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. All encumbrances lapse at year end.

J. Compensated Absences

The School does not permit the carryover of unused vacation days. Accordingly, the financial statements do not contain any provision for unused vacation time.

Employees are allowed unlimited accumulation of unused sick days and, upon retirement can elect to receive compensation as follows:

	<u>Sick Pay Rate/Day</u>	<u>Maximum Benefit</u>
Administrators	\$ 55	\$Unstated
Professional educators	55	12,000
Support personnel	20-50	1,800

K. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Joint Venture

Erie County Area Vocational Technical School exists for the purpose of operating vocational and technical programs for high school students, out of school youths, and adults who are residents of participating districts. The School is a joint venture of eleven member school districts located in the County of Erie, Pennsylvania. Each district elects one member to the Operating Committee (Joint Board). Each district is responsible for a portion of the School's operating budget, based on each district's share of student enrollment and market value of real estate.

N. Proprietary Fund FASB Usage

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed for proprietary activity financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - BUDGETARY INFORMATION

An annual budget is adopted for the General Fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Project length financial plans are adopted for the capital projects funds.

NOTE 2 - BUDGETARY INFORMATION (CONTINUED)

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, a proposed operating budget is submitted to the Operating Committee for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to June 30, the budget is legally adopted through passage of an ordinance.
3. The Operating Committee is authorized to transfer budgeted amounts within a specific budget object; any other transfers or revisions that alter the total expenditures of any fund must be approved by the Operating Committee.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the Operating Committee or the expenditures are all fixed in nature.

NOTE 3 - CASH AND CASH EQUIVALENTS

At year end, the Erie County Technical School's carrying amount of deposits was \$877,814 and the bank balance was \$908,440. Of the bank balance, \$200,000 was covered by federal depository insurance and by collateral held by the government's agent in the government's name. The remaining balance of \$708,440 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2004 for the government's individual major funds and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>General</u>	<u>Total</u>
Federal & State Grants	\$ -	\$ -
Other	<u>121,170</u>	<u>121,170</u>
Gross Receivables	121,170	121,170
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>
	<u>\$ 121,170</u>	<u>\$ 121,170</u>

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School. At June 30, 2004, the following amounts are due from other governmental units:

	<u>General Fund</u>	<u>Total</u>
Federal	\$ -	\$ -
State	56,567	56,567
Local	<u>-</u>	<u>-</u>
	<u>\$ 56,567</u>	<u>\$ 56,567</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year follows:

	June 30, 2003	Additions	Deletions	June 30, 2004
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 304,831	\$ -	\$ -	\$ 304,831
Capital assets depreciated:				
Buildings and improvements	10,744,493	-	(981)	10,743,512
Machinery and Equipment	3,094,507	92,390	(664,902)	2,521,995
Vehicles	35,000	-	-	35,000
Total assets depreciated	13,874,000	92,390	(665,883)	13,300,507
Less accumulated depreciation				
Buildings and improvements	(5,564,938)	(252,389)	1,831	(5,815,496)
Machinery and Equipment	(2,083,403)	(156,205)	621,733	(1,617,875)
Vehicles	(33,750)	(1,250)	-	(35,000)
Total accumulated depreciation	(7,682,091)	(409,844)	623,564	(7,468,371)
Total capital assets, being depreciated, net	\$ 6,191,909	\$ (317,454)	\$ (42,319)	\$ 5,832,136
	June 30, 2003	Additions	Deletions	June 30, 2004
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 130,221	\$ -	\$ (18,939)	\$ 111,282
Total assets depreciated	130,221	-	(18,939)	111,282
Less accumulated depreciation				
Equipment	(111,246)	(3,722)	18,939	(96,029)
Total accumulated depreciation	(111,246)	(3,722)	18,939	(96,029)
Total capital assets being depreciated, net	\$ 18,975	\$ (3,722)	\$ -	\$ 15,253

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follow:

Governmental Activities:

Instruction:

Vocational	\$ 325,532
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Support Services:

Administration	59,073
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Operation and Maintenance	25,239
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<u>\$ 409,844</u>

Business-Type Activities:

Food Service	\$ 3,722
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Total Depreciation Expense -

Business-Type Activities	<u>\$ 3,722</u>
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NOTE 7 - TRANSFERS

<u>Transfer In</u>	<u>Transfer Out General Fund</u>
Capital Projects	\$ 56,323
	<u>\$ 56,323</u>

NOTE 8 - LONG-TERM DEBT

On September 23, 1999, the School entered into a capital lease to upgrade the lighting system and other building improvements. The lease requires quarterly payments of \$8,974 beginning March 15, 2000 to December 15, 2009. The assets acquired through capital leases are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
Building Improvements	\$ 267,640
Less accumulated depreciation	<u>(53,528)</u>
	<u>\$ 214,112</u>

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2004 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2005	\$ 35,898
2006	35,898
2007	35,898
2008	35,898
2009	35,898
2010	<u>17,949</u>
Total minimum lease payments	197,439
Less: amount representing interest	<u>(29,331)</u>
Present value of minimum lease payments	<u>\$ 168,108</u>

Long-term liability activity for the year ended June 30, 2004 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Lease	\$ 193,372	\$ -	\$ 25,264	\$ 168,108	\$ 26,756
Compensated Absences	<u>163,103</u>	<u>8,037</u>	<u>-</u>	<u>171,140</u>	<u>19,005</u>
	<u>\$ 356,475</u>	<u>\$ 8,037</u>	<u>\$ 25,264</u>	<u>\$ 339,248</u>	<u>\$ 45,761</u>

NOTE 9 - RETIREMENT PLAN

A. Plan Description

The School contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Public School Employee Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the PSERS Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the plan. That report may be obtained by writing to PSERS, P. O. Box 125, Harrisburg, Pennsylvania 17108-0125.

NOTE 9 - RETIREMENT PLAN

B. Funding Policy

The contribution policy is set by the Code and requires contribution by active employees and by participating employers. Plan members are required to contribute 5.25 percent of their compensation if they joined the plan before July 22, 1983, and 6.25 percent if they joined on or after that date. Under Act 2001-9 May 17, 2001 members may elect to increase their contribution rate by 1.25% as of January 1, 2002, thereby increasing their benefit. Employees hired after January 1, 2002 are required to contribute 7.5%. The contributions required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2004, the rate of employer contributions was 3.77 percent of covered payroll. Before July 1, 1995, Schools and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, Schools are required to pay the entire employer contributions rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. The School's contributions to PSERS for years ending June 30, 2004, 2003, and 2002 were \$83,880, \$28,515, and \$366,302, respectively. Those amounts are equal to the required contribution for each year.

NOTE 10 - SELF INSURANCE

A. Health Insurance

The School's self-insurance program pays accident and health insurance coverage for School employees on a cost - reimbursement basis. Retired employees are also covered by the program; provided they pay a monthly premium to the School. Under the program, the School is obligated for claim payments.

A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$45,000, up to \$1,000,000 maximum.

During the year ended June 30, 2004, total claims expense and stop-loss insurance expense were approximately \$433,594. Claims expense, recorded as a general fund expenditure, represents claims processed as of June 30, 2004, and includes \$71,394 estimated unprocessed claims payable.

NOTE 10 - SELF INSURANCE (CONTINUED)

The claims asset of \$552,015 is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability had been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims asset is as follows:

Claims asset, beginning of year	\$ 552,015
Current year premiums	433,594
Claim payments and administration	<u>(433,594)</u>
Claims asset, end of year	<u>\$ 552,015</u>

Future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonable estimated. Thus, the financial statements do not reflect a contingent liability for any unasserted claims. To fund future claims the School maintains a prepaid deposit of \$552,015.

B. Unemployment Compensation

The School is self-insured for unemployment compensation purposes for all employees. Based on the history of lay-offs, the projections of future enrollment and the cost savings, the School has opted to self-insure.

Future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonably estimated. Accordingly, no provision has been made in the accompanying financial statements to reflect a contingent liability for future claims.

NOTE 11 - RISK MANAGEMENT

The School is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The School has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2004, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 12 - ECONOMIC DEPENDENCY

The Erie County Technical School is a joint venture of eleven member school districts. The School derives a substantial portion of its revenue from the member districts. For the year ended June 30, 2004, revenue from member districts was \$2,794,229, which was 68% of the School's total general fund revenue.

ERIE COUNTY TECHNICAL SCHOOL
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 289,268	\$ 289,268	\$ 214,870	\$ (74,398)
State Sources	854,190	786,199	764,394	(21,805)
Federal Sources	319,770	323,571	323,571	-
Support-Local Districts	2,726,851	2,726,851	2,794,229	67,378
Total Revenues	<u>4,190,079</u>	<u>4,125,889</u>	<u>4,097,064</u>	<u>(28,825)</u>
Expenditures and Other Financing Uses				
Instruction				
Vocational Education Programs	1,711,752	1,735,594	1,738,232	(2,638)
Other Instructional Programs	219,500	242,439	215,490	26,949
Adult Education Programs	228,718	137,002	132,184	4,818
Total Instruction	<u>2,159,970</u>	<u>2,115,035</u>	<u>2,085,906</u>	<u>29,129</u>
Support Services				
Pupil Personnel	477,990	373,162	371,740	1,422
Instructional Staff	49,637	88,684	89,161	(477)
Administrative	386,062	468,458	471,573	(3,115)
Pupil Health	800	800	240	560
Business	174,440	174,440	172,350	2,090
Operation and Maintenance of				
Plant Services	642,756	626,797	619,305	7,492
Student Transportation Services	7,500	4,100	1,242	2,858
Central	217,034	225,140	216,854	8,286
Total Support Services	<u>1,956,219</u>	<u>1,961,581</u>	<u>1,942,465</u>	<u>19,116</u>
Operation of Noninstructional Services				
Student Activities	1,685	1,685	1,684	1
Community Services	9,013	2,000	1,832	168
Total Noninstructional Services	<u>10,698</u>	<u>3,685</u>	<u>3,516</u>	<u>169</u>
Facilities Acquisition, Construction	3,000	1,000	1,026	(26)
Total Expenditures	<u>4,129,887</u>	<u>4,081,301</u>	<u>4,032,913</u>	<u>48,388</u>
Excess of Revenues				
Over/(Under) Expenditures	<u>60,192</u>	<u>44,588</u>	<u>64,151</u>	<u>19,563</u>
Other Financing Sources (Uses)				
Interfund Transfers	(10,574)	(56,323)	(56,323)	-
Sale of Fixed Assets	5,000	5,000	42,368	37,368
Changes in Inventory	-	-	34,377	34,377
Budget Reserve	(285,294)	(223,941)	-	223,941
Total Other Financing Sources (Uses)	<u>(290,868)</u>	<u>(275,264)</u>	<u>20,422</u>	<u>295,686</u>
Net Change in Fund Balance	<u>(230,676)</u>	<u>(230,676)</u>	<u>84,573</u>	<u>315,249</u>
Fund Balance - July 1, 2003	<u>990,280</u>	<u>990,280</u>	<u>990,280</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ 759,604</u>	<u>\$ 759,604</u>	<u>\$ 1,074,853</u>	<u>\$ 315,249</u>

The accompanying notes are an integral part of these financial statements.

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Members of the Operating Committee
Erie County Technical School
Erie, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Erie County Technical School, as of and for the year ended June 30, 2004, which collectively comprise the Erie County Technical School's basic financial statements and have issued our report thereon dated August 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Erie County Technical School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards
(Continued)**

design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of Erie County Technical School in a separate letter dated August 4, 2004.

This report is intended solely for the information and use of the operating committee, 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.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

August 4, 2004
Erie, Pennsylvania