

ERIE COUNTY TECHNICAL SCHOOL
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008

DRAFT

**ERIE COUNTY TECHNICAL SCHOOL
AUDITED FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Page</u>
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-19
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	21
Statement of Activities	22-23
Fund Financial Statements	
Balance Sheet - Governmental Funds	24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	28
Statement of Net Assets - Proprietary Fund	29
Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Fund	30
Statement of Cash Flows - Proprietary Fund	31
Statement of Fiduciary Net Assets - Fiduciary Funds	32
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	33
Notes to Financial Statements	34-49
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	50
Independent Auditors' 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	51-52

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, 2008, which collectively comprise 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 opinions 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, 2008, and the respective changes in financial position and, where applicable, cash flows 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.

Independent Auditors' Report
(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008 on our consideration of the Erie County Technical School'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 and budgetary comparison information on pages 5 through 19 and 50 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 required 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 25, 2008
Erie, Pennsylvania

ERIE COUNTY TECHNICAL SCHOOL
Management's Discussion and Analysis (MD&A)
June 30, 2008

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, 2008. 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.

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 with-in 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 Erie County Technical School delivers career success to Northwest Pennsylvania through:

- Employability
- Career Planning
- Technical Education
- Supporting Academics

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 post-secondary 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 program and is based on a funding formula agreed upon by all the districts as part of the Articles of Agreement. Total district contributions were:

- \$3,120,514 for 2007-08
- \$3,018,487 for 2006-07
- \$2,784,866 for 2005-06

Additional revenue from school districts is for students enrolled in a Career and Alternative Education Program for Disruptive Youth. Total district payments were:

- \$743,170 for 2007-08
- \$569,415 for 2006-07
- \$527,110 for 2005-06

The AVTS operated a satellite Diversified Occupations Program at Wattsburg Area School District beginning in 2006-2007 and total payments were:

- \$20,650 for 2007-08
- \$18,855 for 2006-07

The AVTS began construction of a Special Education Transition Center within the Skill Center Building to provide training for a successful transition to work and/or training after graduation for special needs students. Seven member school districts are participating in the Center and provided start up funds during 2007-08. These seven districts will continue to make operating rental payments in future years according to a lease agreement. Payments made were:

- \$111,000 for 2007-08

Total contributions from participating school districts as a percentage of secondary program operating revenue were:

- 76% for 2007-08
- 74% for 2006-07
- 68% for 2005-06

Regional Career and Technical Center (RCTC):

During 2007-08, the adult training programs continued as part-time, certificate classes. PDE accreditation has been obtained which will enable student access to federal tuition assistance so that RCTC adult students could co-enroll in the secondary program. The Joint Operating Committee has yet to approve the co-enrollment of adults in the secondary program.

Skill Center Building:

The Skill Center Building continued to be mostly out of service for 2007-08 with all the Erie County Technical School programs being housed at the main high school building.

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

The Northwest Tri-County Intermediate Unit continued leasing space for classrooms for a regional collaborative effort for the delivery of advanced courses to high school students from participating school districts.

The Career and Alternative Education continues to use classroom space at the Skill Center building, as well as the high school building for a high school and middle school program.

RCTC continued to use the welding lab while partnering with Northwest Industrial Resource Center to provide skill training for area companies.

Northwestern Region Employee Benefit Trust (NOREBT):

The AVTS participates in a self-funded insurance trust for the purpose of providing medical, prescription, dental and vision plans to eligible employees, retirees and their dependents. The AVTS makes contributions to the trust for payment of claims, expenses, and stop-loss insurance. The AVTS asset share of the trust balance is recorded as a prepaid deposit on the Balance Sheet and corresponding Fund Balance Reserve. This reserve is being maintained to fund future claims and to moderate future contribution increases:

- \$632,605 at June 30, 2008
- \$549,542 at June 30, 2007

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

Within the Financial Section are the Management Discussion and Analysis (this section) and a series of financial statements and notes to those 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

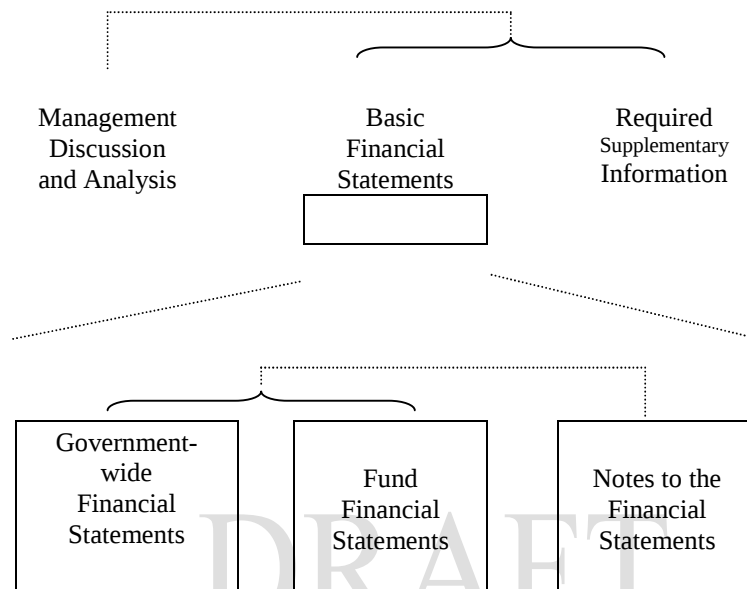


Figure A-2 summarizes the major features of the AVTS financial statements, including the portion of the AVTS they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

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 the school districts' contributions 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 reported in separate statements of fiduciary net assets. We exclude these activities from the AVTS financial statements 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:

\$6,743,960 at June 30, 2008

\$6,549,092 at June 30, 2007

\$6,588,079 at June 30, 2006

The change in value can be attributed to asset acquisitions, asset depreciation, asset sales and disposals. The school continues to make a major effort to insure that machinery and equipment is recorded properly and is verifiable.

Table A-1
Fiscal Year Ended June 30, 2008
Net Assets

	Governmental Activities	Business- Type Activities	Total	Prior Year Total 6/30/2007
Current and other assets	\$ 2,086,376	\$ 18,265	\$ 2,104,641	\$ 1,801,626
Non current assets	5,456,354	47,920	5,504,274	5,464,355
Total assets	<u>\$ 7,542,730</u>	<u>\$ 66,185</u>	<u>\$ 7,608,915</u>	<u>\$ 7,265,981</u>
Current and other liabilities	\$ 612,182	\$ 22	\$ 612,204	\$ 461,045
Non current liabilities	252,751	-	252,751	255,844
Total liabilities	<u>864,933</u>	<u>22</u>	<u>864,955</u>	<u>716,889</u>
Net assets				
Invested in capital assets, net of related debt	5,405,128	47,920	5,453,048	5,381,348
Restricted-capital projects	391,547	-	391,547	287,047
Unrestricted	881,122	18,243	899,365	880,697
Total net assets	<u>6,677,797</u>	<u>66,163</u>	<u>6,743,960</u>	<u>6,549,092</u>
Total liabilities and net assets	<u>\$ 7,542,730</u>	<u>\$ 66,185</u>	<u>\$ 7,608,915</u>	<u>\$ 7,265,981</u>

Most of the AVTS net assets are invested in capital assets (buildings, land, and equipment). The restricted balances are amounts set-aside to fund future equipment purchases or capital projects.

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 contribution 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, 2008
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total	Prior Year Total 6/30/2007
Revenues				
Program revenues				
Charges for services	\$ 428,059	\$ 95,537	\$ 523,596	\$ 459,080
Operating grants and contributions	1,210,738	46,271	1,257,009	1,171,982
Capital grants and contributions	82,436	-	82,436	93,938
General revenues				
Support - local districts	3,995,334	-	3,995,334	3,606,758
Interest	44,059	30	44,089	46,669
Miscellaneous	46,066	-	46,066	11,950
Interfund transfers	(11,990)	11,990	-	-
Sale of fixed assets	41,775	-	41,775	245,380
Total Revenues	<u>5,836,477</u>	<u>153,828</u>	<u>5,990,305</u>	<u>5,635,757</u>
Expenses				
Instruction	3,103,237	-	3,103,237	2,969,641
Pupil Personnel	482,038	-	482,038	444,475
Instructional staff support	234,425	-	234,425	212,484
Administrative and financial support	667,901	-	667,901	645,083
Operation and maintenance of plant	787,956	-	787,956	793,684
Central services	377,626	-	377,626	301,347
Student activities	1,736	-	1,736	1,726
Community services	1,553	-	1,553	591
Interest on long-term debt	4,117	-	4,117	5,889
Food services	-	134,848	134,848	117,246
Total Expenses	<u>5,660,589</u>	<u>134,848</u>	<u>5,795,437</u>	<u>5,492,166</u>
Increase (Decrease) in Net Assets	<u>\$ 175,888</u>	<u>\$ 18,980</u>	<u>\$ 194,868</u>	<u>\$ 143,591</u>

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, 2008
Governmental Activities

Functions/Programs	Total Cost of Services	Net Cost of Services	Prior Year 6/30/07 Net Cost
Instruction	\$ 3,103,237	\$ 1,473,690	\$ 1,457,472
Pupil Personnel	482,038	463,164	427,124
Instructional staff support	234,425	225,846	203,808
Administrative	667,901	642,164	619,057
Operation and maintenance	787,956	749,460	754,725
Central services	377,626	377,626	301,347
Student activities	1,736	1,736	1,726
Community services	1,553	1,553	591
Interest on long-term debt	4,117	4,117	5,889
Total Governmental Activities	5,660,589	3,939,356	3,771,739
Less:			
Unrestricted grants, subsidies	-	-	-
Total Needs from Local and Other Revenues	\$ 5,660,589	\$ 3,939,356	\$ 3,771,739

Table A-4 reflects the activities of the Food Service program, the only Business-type Activity of the AVTS.

Table A-4
Fiscal Year Ended June 30, 2008
Business-Type Activities

Functions/Programs	Total Cost of Services	Net Cost of Services	Prior Year 6/30/07 Net Cost
Food services	\$ 134,848	\$ 6,960	\$ 4,573

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:

The AVTS governmental funds reported a combined fund balance of:

\$1,522,155 at June 30, 2008
\$1,378,698 at June 30, 2007
\$1,200,166 at June 30, 2006

General Fund:

The AVTS General Fund's fund balance at June 30, 2008 includes reserves of:

\$144,539 for inventories
\$632,605 for self insurance benefit trust prepaid deposit
\$ 5,451 for prepaid insurances and expenses
\$171,151 for RCTC adult training

The unreserved balance of \$176,862 is available for future years' budgeting. This is used to balance the amount required in future years from school districts to fund the secondary program. The unreserved fund balance is 3.0% of total 2007-08 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.

Transfers to the Capital Reserve Fund from the General fund included:

- 2007-08: District payments for a Transition Center for Special Education students- \$111,000.
- 2006-07: Proceeds from the sale of 20 acres of unused land to the County of Erie- \$275,000

Expenditures from the Capital Reserve Fund included:

- 2007-08: Costs incurred for the Transition Center for Special Education Students- \$22,148

At 6/30/08, \$302,695 of the reserved fund balance is to be used for capital building and program improvements in future years. The remaining balance of \$88,852 is for the Transition Center for Special Education students.

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. The General Fund Budgetary Reserve for 2007-08 was transferred into the expenditure categories for operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the AVTS had \$ 5,504,274 invested in a broad range of capital assets, including land, buildings and machinery and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$39,919 from June 30, 2007.

- A 20 acre parcel of unused land was sold to County of Erie in July 2006 in the amount of \$275,000.
- A 10 acre parcel of unused land is to be sold to Summit Township in the amount of \$37,000, pending final closing in August 2008.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	2008	2007
Land	\$ 272,111	\$ 272,111
Buildings	4,234,383	4,395,264
Machinery & equipment	997,780	796,980
Vehicles	-	-
Total Capital Assets	<u>\$ 5,504,274</u>	<u>\$ 5,464,355</u>

Debt Administration

Bond Obligations - As of June 30, 2008 and June 30, 2007, 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, 2008 of the remaining lease payments (net of interest) is \$51,226.

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

NEXT YEAR'S GENERAL FUND BUDGET – 2008-2009

Introduction

As it has been for the past couple of years, this year's budget development was a challenging process. Act 1 continues to present a challenge to budget development. The Act places an *artificial* cap on contribution increases from our participating school districts. Consequently, the technical school is pressed to minimize contribution increases from the districts. As we see first-hand this year, the Act's index only covers salary and benefit increases and projected increases in standard operating costs.

A second significant challenge was our use of \$262,824 from the fund balance to cover expenses in the 2007-2008 budget. The use of the fund balance as a *source of revenue*, a one-time infusion of funds, must be made up for in the succeeding budget by either a decrease in expenses or an increase in other revenue sources. Since other sources of revenue and variable expenses are limited for the technical school, the use of the fund balance results in an increase in district contributions.

Another challenge is the rising cost for salaries and benefits. Across the campus, this *obligation* totaled \$90,377, which equates to a 2.66% increase. Projected personnel costs are based on *fully fundable programs*. Rising personnel costs limit the flexibility to allocate funds to other areas like technology, instructional services and facilities maintenance.

In light of these challenges, this budget proposal requests an increase of 7.83% from the districts, which is the average Act 1 index for our participating districts plus 2% for *priority line items* reviewed and approved by the Professional Advisory Council.

The administration presented a preliminary draft of this budget to the Professional Advisory Council on December 7, 2007. The advisory council recommended the budget at the 5.8% increase in district contributions. The Joint Operating Committee received a first review on December 18, 2007. The administration asked the operating committee members to consider including *priority line items* in the budget request and to confer with their superintendents. The administration places the 2008-2009 Budget up for approval at the February committee meeting. School districts can begin to vote on the budget in March.

As you review this budget, you will notice there is an end-of-year fund balance of \$38,604 for the secondary program. This is a change in practice from previous budgets. We hope to build up the fund balance for 2008-2009 to stabilize our use of the fund balance. The technical school also has a budgetary reserve. The reserve acts as a minimal savings account and allows for opportunity or emergency expenses. In the 2008-2009 Budget, you will see a budgetary reserve of \$113,360, which represents just over 2% of expenditures.

In this budget document, you will find the presentation provides revenues and expenditures for our two primary divisions—the Erie County Technical School (high school program) and the Regional Career & Technical Center (postsecondary program). For each division, you will find an overall summary, charts depicting revenues and expenditures, and a detail report with specific information on each division's budgetary plan.

Revenue

Total revenue for the General Fund equals \$5.96 million. The secondary program accounts for \$5.49 million while the RCTC program accounts for \$472,165. The budget relies on the fund balance and local sources to align revenue with expenses. District contributions for the secondary program, that equal \$3.36 million, are the largest source of revenue. Alternative education tuition totals \$877,500. Local sources totaling \$ 530,562, state sources totaling \$796,015, and federal sources totaling \$395,082, follow it. The local sources are mainly made-up of RCTC tuitions and rental income.

There are two main sources of State revenue for the high school program—the vocational education subsidy (\$390,000) and the social security subsidy (\$97,000). Other State sources include the alternative education subsidy (\$53,850) and retirement reimbursements (\$62,000).

For the RCTC, State sources include the adult vocational education subsidy of \$19,814 and the New Choices/New Options program grant of \$160,374.

The Carl D. Perkins Applied Technology and Vocational Education grant is our main source of federal funding, at \$320,082. We have also planned for a second year of funding totaling \$75,000 in federal Perkins funds from the Committed to Excellence program.

Expenditures

Overall, General Fund expenditures total \$5.96 million. As expected, the secondary program accounts for the largest part of expenditures with \$5.48 million and the RCTC program accounts for \$472,165. The expenditure for secondary vocational education of \$2.17 million is our largest expense. Other expenditure categories of note include Operation & Maintenance (\$784,948), Administration (\$522,662) and Pupil Personnel (\$498,992).

There are no planned fund transfers for 2008-2009. We typically transfer funds from the General Fund to the Capital Reserve Fund to account for equipment purchases and capital improvements. This plan calls for equipment purchases to come from Perkins funds and capital improvements to come from the General Fund.

Summary

Despite the challenges within this budget, the technical school is able to deliver a quality educational experience to our students. The school will maintain programs and services at current levels.

A review of historical district contributions reveals a range of 0% to 9.93%. Within the past 10 years, the increase in district contributions has been less than 2% on four occasions. The Erie County Technical School is pleased to present this budget proposal for each school district's consideration and we look forward to your endorsement of it.

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ERIE COUNTY TECHNICAL SCHOOL

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,079,513	\$ 12,825	\$ 1,092,338
Receivables, net	224,268	497	224,765
Inventories	144,539	4,943	149,482
Prepaid expenses	638,056	-	638,056
Total Current Assets	<u>2,086,376</u>	<u>18,265</u>	<u>2,104,641</u>
Noncurrent Assets			
Land	272,111	-	272,111
Capital assets, net	5,184,243	47,920	5,232,163
Total Noncurrent Assets	<u>5,456,354</u>	<u>47,920</u>	<u>5,504,274</u>
Total Assets	<u>\$ 7,542,730</u>	<u>\$ 66,185</u>	<u>\$ 7,608,915</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 209,998	\$ -	\$ 209,998
Accrued salaries and benefits	349,386	4,859	354,245
Internal balances	4,837	(4,837)	-
Compensated absences	12,063	-	12,063
Capital lease payable	35,898	-	35,898
Total Current Liabilities	<u>612,182</u>	<u>22</u>	<u>612,204</u>
Noncurrent Liabilities			
Capital lease payable	15,328	-	15,328
Compensated absences	237,423	-	237,423
Total Noncurrent Liabilities	<u>252,751</u>	<u>-</u>	<u>252,751</u>
Total Liabilities	<u>864,933</u>	<u>22</u>	<u>864,955</u>
NET ASSETS			
Investment in capital assets, net of related debt	5,405,128	47,920	5,453,048
Restricted for capital projects	391,547	-	391,547
Unrestricted	881,122	18,243	899,365
Total Net Assets	<u>6,677,797</u>	<u>66,163</u>	<u>6,743,960</u>
Total Liabilities and Net Assets	<u>\$ 7,542,730</u>	<u>\$ 66,185</u>	<u>\$ 7,608,915</u>

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

ERIE COUNTY TECHNICAL SCHOOL

Statement of Activities For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction	\$ 3,103,237	\$ 389,563	\$ 1,157,548	\$ 82,436
Pupil personnel	482,038	-	18,874	-
Instructional staff	234,425	-	8,579	-
Administrative and financial support	667,901	-	25,737	-
Operation and maintenance of plant services	787,956	38,496	-	-
Central services	377,626	-	-	-
Student activities	1,736	-	-	-
Community services	1,553	-	-	-
Interest on debt	4,117	-	-	-
Total Governmental Activities	5,660,589	428,059	1,210,738	82,436
Business-Type Activities				
Food service	134,848	95,537	46,271	-
Total Primary Government	\$ 5,795,437	\$ 523,596	\$ 1,257,009	\$ 82,436
General Revenues				
Support-local districts				
Interest earnings				
Miscellaneous income				
Interfund transfers				
Sale of fixed assets				
Total General Revenues				
Change in Net Assets				
Net Assets, July 1, 2007, as restated				
Net Assets, June 30, 2008				

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
\$ (1,473,690)	\$ -	\$ (1,473,690)
(463,164)	-	(463,164)
(225,846)	-	(225,846)
(642,164)	-	(642,164)
(749,460)	-	(749,460)
(377,626)	-	(377,626)
(1,736)	-	(1,736)
(1,553)	-	(1,553)
(4,117)	-	(4,117)
(3,939,356)	-	(3,939,356)
-	6,960	6,960
(3,939,356)	6,960	(3,932,396)
3,995,334	-	3,995,334
44,059	30	44,089
46,066	-	46,066
(11,990)	11,990	-
41,775	-	41,775
4,115,244	12,020	4,127,264
175,888	18,980	194,868
6,501,909	47,183	6,549,092
\$ 6,677,797	\$ 66,163	\$ 6,743,960

ERIE COUNTY TECHNICAL SCHOOL
Balance Sheet-Governmental Funds
June 30, 2008

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 687,966	\$ 391,547	\$ 1,079,513
Receivables (net)	224,268	-	224,268
Inventories	144,539	-	144,539
Prepaid items	638,056	-	638,056
 Total Assets	 <u>\$ 1,694,829</u>	 <u>\$ 391,547</u>	 <u>\$ 2,086,376</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Interfund payable	\$ 4,837	\$ -	4,837
Accounts payable	209,998	-	209,998
Accrued salaries and benefits	349,386	-	349,386
 Total Liabilities	 <u>564,221</u>	 <u>-</u>	 <u>564,221</u>
Fund Balance			
Reserved for capital projects	-	391,547	391,547
Reserved for prepaid items	638,056	-	638,056
Reserved for inventories	144,539	-	144,539
Reserved for Regional Career and Technical Center	171,151	-	171,151
Unreserved	176,862	-	176,862
 Total Fund Balances	 <u>1,130,608</u>	 <u>391,547</u>	 <u>1,522,155</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,694,829</u>	 <u>\$ 391,547</u>	 <u>\$ 2,086,376</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
June 30, 2008

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

Fund balances - governmental fund		\$ 1,522,155
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		5,456,354
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Compensated absences	\$ (249,486)	
Capital lease obligations	<u>(51,226)</u>	<u>(300,712)</u>
Net assets of governmental activities		<u><u>\$ 6,677,797</u></u>

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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, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Local sources	\$ 502,537	\$ 15,648	\$ 518,185
State sources	934,612	-	934,612
Federal sources	358,561	-	358,561
Support-local districts	3,995,334	-	3,995,334
Total Revenues	<u>5,791,044</u>	<u>15,648</u>	<u>5,806,692</u>
EXPENDITURES			
Instruction	3,067,888	-	3,067,888
Support services	2,495,401	-	2,495,401
Noninstructional services	3,289	-	3,289
Facilities acquisition, construction	84,141	22,148	106,289
Debt service	35,898	-	35,898
Total Expenditures	<u>5,686,617</u>	<u>22,148</u>	<u>5,708,765</u>
Excess of Revenues Over (Under) Expenditures	<u>104,427</u>	<u>(6,500)</u>	<u>97,927</u>
Other Financing Sources (Uses)			
Interfund transfers	(122,990)	111,000	(11,990)
Sale of fixed assets	41,775	-	41,775
Change in inventory	15,745	-	15,745
Total Other Financing Sources (Uses)	<u>(65,470)</u>	<u>111,000</u>	<u>45,530</u>
Net Change in Fund Balance	38,957	104,500	143,457
Fund Balance - July 1, 2007	<u>1,091,651</u>	<u>287,047</u>	<u>1,378,698</u>
Fund Balance - June 30, 2008	<u><u>\$ 1,130,608</u></u>	<u><u>\$ 391,547</u></u>	<u><u>\$ 1,522,155</u></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 Balance of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balance - governmental fund	\$ 143,457
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in the statement of net assets	347,995
Depreciation expense on governmental capital assets included in the governmental activities in the statement of activities	(314,468)
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	\$ 31,781
Change in compensated absences	(32,877)
	(1,096)
Change in net assets of governmental activities	\$ 175,888

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, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 375,046	\$ 461,106	\$ 502,537	\$ 41,431
State sources	849,448	909,798	934,612	24,814
Federal sources	371,710	445,082	358,561	(86,521)
Support-local districts	4,016,400	3,930,338	3,995,334	64,996
Total Revenues	<u>5,612,604</u>	<u>5,746,324</u>	<u>5,791,044</u>	<u>44,720</u>
EXPENDITURES				
Instruction	3,106,608	3,298,135	3,067,888	230,247
Support services	2,518,522	2,515,447	2,495,401	20,046
Noninstructional services	4,495	3,295	3,289	6
Facilities acquisition, construction and improvement services	90,000	195,329	84,141	111,188
Debt service	35,898	35,898	35,898	-
Total Expenditures	<u>5,755,523</u>	<u>6,048,104</u>	<u>5,686,617</u>	<u>361,487</u>
Excess of Revenues Over (Under) Expenditures	<u>(142,919)</u>	<u>(301,780)</u>	<u>104,427</u>	<u>406,207</u>
Other Financing Sources (Uses)				
Interfund transfers	-	-	(122,990)	(122,990)
Changes in inventory	-	-	15,745	15,745
Sale of fixed assets	10,000	10,000	41,775	31,775
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>	<u>(65,470)</u>	<u>(75,470)</u>
Net Change in Fund Balance	(132,919)	(291,780)	38,957	330,737
Fund Balance - July 1, 2007	<u>1,091,651</u>	<u>1,091,651</u>	<u>1,091,651</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 958,732</u>	<u>\$ 799,871</u>	<u>\$ 1,130,608</u>	<u>\$ 330,737</u>

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

ERIE COUNTY TECHNICAL SCHOOL
Statement of Net Assets - Proprietary Fund
June 30, 2008

	<u>Food Service</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 12,825
Interfund receivables	4,837
Intergovernmental receivables	497
Inventories	<u>4,943</u>
Total Current Assets	<u>23,102</u>
Non Current Assets	
Machinery and equipment	
(Net of accumulated depreciation)	<u>47,920</u>
Total Assets	<u><u>\$ 71,022</u></u>
LIABILITIES	
Current Liabilities	
Accrued salaries and benefits	<u>\$ 4,859</u>
Total Current Liabilities	<u>4,859</u>
NET ASSETS	
Invested in capital assets net of related debt	47,920
Unrestricted	<u>18,243</u>
Total Net Assets	<u>66,163</u>
Total Liabilities and Net Assets	<u><u>\$ 71,022</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, 2008

	<u>Food Service</u>
Operating Revenues	
Food service revenue	<u>\$ 95,537</u>
Total Operating Revenues	<u>95,537</u>
Operating Expenses	
Personnel services - salaries	36,943
Personnel services - employee benefits	15,192
Supplies and food	72,409
Depreciation	3,864
Loss on asset disposal	1,734
Other	<u>4,706</u>
Total Operating Expenses	<u>134,848</u>
Operating Income (Loss)	<u>(39,311)</u>
Nonoperating Revenues	
Interfund transfers	11,990
Earnings on investments	30
State sources	6,029
Federal sources	<u>40,242</u>
Total Nonoperating Revenues	<u>58,291</u>
Change in Net Assets	18,980
Net Assets, July 1, 2007	<u>47,183</u>
Net Assets, June 30, 2008	<u><u>\$ 66,163</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, 2008

	<u>Food Service</u>
Cash Flows from Operating Activities:	
Cash received from users	\$ 95,743
Cash payments to employees for services	(53,694)
Cash payments to suppliers for goods and services	(72,271)
Cash payments for operating expenses	<u>(4,706)</u>
Net Cash (Used for) Operating Activities	<u>(34,928)</u>
Cash Flows from Noncapital Financing Activities:	
State sources	5,606
Federal sources	<u>35,331</u>
Net Cash Provided by Noncapital Financing Activities	<u>40,937</u>
Cash Flows from Investing Activities:	
Purchase of fixed assets	(11,990)
Earnings on investments	30
Interfund transfers	<u>11,990</u>
Net Cash Provided by Investing Activities	<u>30</u>
Net Increase in Cash	6,039
Cash at Beginning of Year	<u>6,786</u>
Cash at End of Year	<u><u>\$ 12,825</u></u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities:	
Operating income (loss)	\$ (39,311)
Adjustment to reconcile operating income (loss) to net cash (used for) operating activities -	
Depreciation	3,864
Loss on disposal of assets	1,734
(Increase) decrease receivables (net)	206
(Increase) decrease in inventories	138
Increase (decrease) in interfund payables	(342)
Increase (decrease) in accrued expenses	<u>(1,217)</u>
Net Cash (Used for) Operating Activities	<u><u>\$ (34,928)</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, 2008

	Private Purpose Trust	Student Activities
Assets		
Cash and cash equivalents	\$ 11,701	\$ 3,103
Deposit-Erie Community Foundation	181,582	-
Other receivables	1,290	-
Total Assets	<u>\$ 194,573</u>	<u>\$ 3,103</u>
Liabilities		
Accounts payable	<u>\$ -</u>	<u>\$ 3,103</u>
Total Liabilities	<u>-</u>	<u>3,103</u>
Net Assets		
Held in trust for scholarships	<u>194,573</u>	
Total Liabilities and Net Assets	<u>\$ 194,573</u>	<u>\$ 3,103</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, 2008

	Private Purpose Trust
Additions:	
Investment income (loss)	\$ (9,796)
Contributions	<u>7,464</u>
Total Additions	<u>(2,332)</u>
Deductions:	
Scholarships	<u>17,590</u>
Total Deductions	<u>17,590</u>
Change in Net Assets	(19,922)
Net Assets, July 1, 2007	<u>214,495</u>
Net Assets, July 1, 2008	<u><u>\$ 194,573</u></u>

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

ERIE COUNTY TECHNICAL SCHOOL
Notes to Financial Statements
June 30, 2008

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. 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.

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 government's 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, 2008.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2008. 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 \$1,500 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 asset’s 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	\$ 75	\$ 18,750
Professional educators	55	12,000
Support personnel	55	12,000

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 Administration 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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a policy for custodial credit risk. As of June 30, 2008, \$24,545 of the School's bank balance of \$124,545 was exposed to custodial credit risk.

Unsecured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the School's name		24,545
	\$	24,545

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation to Financial Statements

Insured amount	\$ 100,000
Uninsured amount	24,545
Add: deposits in transit	-
Less: outstanding checks	(1,530)
Carrying amount of bank balances	123,015
Plus: petty cash	150
pooled cash equivalents	969,173
Total cash per financial statements	<u>\$ 1,092,338</u>

Investments

As of June 30, 2008, the School had the following investments:

PA Local Government Investment Trust	\$ 303
PA Local Government Investment Trust-Plus	50,600
PA School District Liquid Asset Fund	390,835
PA School District Liquid Asset Fund-PSDMAX	527,435
	<u>\$ 969,173</u>

Interest Rate Risk

The School does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The School follows the Pennsylvania School Code's investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2008, the School's investments were rated as:

PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA

Concentration of Risk

The School places no limit on the amount the School may invest in any one issuer. All of the School's investments are in PA Local Government Investment Trust and PA School District Liquid Asset Fund.

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School has no investment subject to custodial credit risk.

Reconciliation to Financial Statements

Total investments above	\$ 969,173
Less: deposits in investment pool considered cash equivalents	<u>969,173</u>
Total investments per financial statements	<u>\$ -</u>

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2008 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>Business Activities</u>	<u>Total</u>
Federal & state grants	\$ 81,180	\$ 497	\$ 81,677
Other	<u>143,088</u>	<u>-</u>	<u>143,088</u>
Gross receivables	224,268	497	224,765
Less: Allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 224,268</u>	<u>\$ 497</u>	<u>\$ 224,765</u>

NOTE 5 - RECEIVABLES/PAYABLES FUNDS

The composition of interfund balances as of June 30, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	<u>\$ 4,837</u>
		<u>\$ 4,837</u>

The outstanding balances between funds result mainly from the time lag between the date that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year was as follows:

	June 30, 2007	Additions	Deletions/ Adjustments	June 30, 2008
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 272,111	\$ -	\$ -	\$ 272,111
Capital assets depreciated:				
Buildings and improvements	10,685,751	37,570	-	10,723,321
Machinery and equipment	2,123,626	310,425	(353,156)	2,080,895
Vehicles	55,000	-	-	55,000
Total Assets Depreciated	12,864,377	347,995	(353,156)	12,859,216
Less accumulated depreciation				
Buildings and improvements	(6,290,487)	(198,451)	-	(6,488,938)
Machinery and equipment	(1,368,174)	(116,017)	353,156	(1,131,035)
Vehicles	(55,000)	-	-	(55,000)
Total Accumulated Depreciation	(7,713,661)	(314,468)	353,156	(7,674,973)
Total Capital Assets, Being Depreciated, Net	\$ 5,150,716	\$ 33,527	\$ -	\$ 5,184,243
	June 30, 2007	Additions	Deletions/ Adjustments	June 30, 2008
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 147,388	\$ 11,990	\$ (33,655)	\$ 125,723
Total Assets Depreciated	147,388	11,990	(33,655)	125,723
Less accumulated depreciation				
Equipment	(105,860)	(3,864)	31,921	(77,803)
Total Accumulated Depreciation	(105,860)	(3,864)	31,921	(77,803)
Total Capital Assets Being Depreciated, Net	\$ 41,528	\$ 8,126	\$ (1,734)	\$ 47,920

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:

Instruction:

Vocational	\$ 259,923
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Support Services:

Administration	34,700
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Operation and maintenance	19,845
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	<u>\$ 314,468</u>
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Business-Type Activities:

Food service	<u>\$ 3,864</u>
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NOTE 7 - 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>(107,056)</u>
	<u>\$ 160,584</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2008 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2009	\$ 35,898
2010	<u>17,949</u>
Total Minimum Lease Payments	53,847
Less: Amount representing interest	<u>(2,621)</u>
Present Value of Minimum Lease Payments	<u>\$ 51,226</u>

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2008 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	\$ 83,007	\$ -	\$ 31,781	\$ 51,226	\$ 33,658
Compensated absences	<u>216,609</u>	<u>44,867</u>	<u>11,990</u>	<u>249,486</u>	<u>12,063</u>
	<u>\$ 299,616</u>	<u>\$ 44,867</u>	<u>\$ 43,771</u>	<u>\$ 300,712</u>	<u>\$ 45,721</u>

The liability for compensated absences is normally liquidated by the general fund.

NOTE 8 - 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 8 - RETIREMENT PLAN (CONTINUED)

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, 2008, the rate of employer contributions was 7.13% 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, 2008, 2007, and 2006 were \$176,435, \$155,287, and \$111,093, respectively. Those amounts are equal to the required contribution for each year.

NOTE 9 - 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, 2008, total claims expense and stop-loss insurance expense were approximately \$520,000. Claims expense, recorded as a general fund expenditure, represents claims processed as of June 30, 2008, and includes \$84,614 estimated unprocessed claims payable.

NOTE 9 - SELF INSURANCE (CONTINUED)

The claims asset of \$632,605 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, July 1, 2006	\$ 600,453
Current year premiums	550,953
Claim payments and administration	<u>(597,779)</u>
Claims asset, June 30, 2007	<u>\$ 553,627</u>
Current year premiums	600,665
Claim payments and administration	<u>(521,687)</u>
Claims asset, June 30, 2008	<u>\$ 632,605</u>

Future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonably 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 \$632,605.

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 10 - 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, 2008 and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 11 - 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, 2008, revenue from member districts was \$3,995,334, which was 69% of the School's total General Fund revenue.

NOTE 12 - RESTATEMENT OF NET ASSETS

The beginning net assets were restated to reflect an increase in the threshold level for the capitalization of fixed assets.

The effect of the restatements were as follows:

Beginning balance	\$6,684,487
Capital assets, net	<u>(182,578)</u>
	<u><u>\$6,501,909</u></u>

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ERIE COUNTY TECHNICAL SCHOOL
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local sources	\$ 375,046	\$ 461,106	\$ 502,537	\$ 41,431
State sources	849,448	909,798	934,612	24,814
Federal sources	371,710	445,082	358,561	(86,521)
Support-local districts	4,016,400	3,930,338	3,995,334	64,996
Total Revenues	5,612,604	5,746,324	5,791,044	44,720
Expenditures and Other Financing Uses				
Instruction				
Vocational education programs	2,182,293	2,313,418	2,172,391	141,027
Other instructional programs	671,839	720,209	707,575	12,634
Adult education programs	252,476	264,508	187,922	76,586
Total Instruction	3,106,608	3,298,135	3,067,888	230,247
Support Services				
Pupil personnel	477,209	493,093	482,038	11,055
Instructional staff	229,663	246,300	233,472	12,828
Administrative	499,070	483,531	485,706	(2,175)
Pupil health	1,000	1,500	953	547
Business	143,432	151,316	147,495	3,821
Operation and maintenance of plant services	812,754	767,725	767,449	276
Student transportation services	2,500	1,850	662	1,188
Central	352,894	370,132	377,626	(7,494)
Total Support Services	2,518,522	2,515,447	2,495,401	20,046
Operation of Noninstructional Services				
Student activities	1,745	1,745	1,736	9
Community services	2,750	1,550	1,553	(3)
Total Noninstructional Services	4,495	3,295	3,289	6
Facilities acquisition, construction and improvement services	90,000	195,329	84,141	111,188
Debt service	35,898	35,898	35,898	-
Total Expenditures	5,755,523	6,048,104	5,686,617	361,487
Excess of Revenues Over/(Under) Expenditures	(142,919)	(301,780)	104,427	406,207
Other Financing Sources (Uses)				
Interfund transfers	-	-	(122,990)	(122,990)
Changes in inventory	-	-	15,745	15,745
Sale of fixed assets	10,000	10,000	41,775	31,775
Total Other Financing Sources (Uses)	10,000	10,000	(65,470)	(75,470)
Net Change in Fund Balance	(132,919)	(291,780)	38,957	330,737
Fund Balance - July 1, 2007	1,091,651	1,091,651	1,091,651	-
Fund Balance - June 30, 2008	\$ 958,732	\$ 799,871	\$ 1,130,608	\$ 330,737

**Independent Auditors' 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**

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, 2008, which collectively comprise the Erie County Technical School's basic financial statements and have issued our report thereon dated August 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School'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 of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

**Independent Auditors' 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
(Continued)**

A material weakness is a significant deficiency, or 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 School's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 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 the Erie County Technical School in a separate letter dated August 25, 2008.

This report is intended solely for the information and use of the audit committee and management 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 25, 2008
Erie, Pennsylvania