

Erie County Community College of Pennsylvania
(A Component Unit of Erie County)

Financial Statements and
Required Supplementary Information

Year Ended June 30, 2021
with Independent Auditor's Report

MaherDuessel

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ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

YEAR ENDED JUNE 30, 2021

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Independent Auditor's Report

Board of Trustees Erie County Community College of Pennsylvania

financial statements, which collectively comprise EC3PA's basic financial statements as listed in the table of contents.

We have audited the accompanying financial statements of the business-type activities of Erie County Community College of Pennsylvania (EC3PA), a component unit of the County of Erie, as of and for the year ended June 30, 2021, and the related notes to the

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of EC3PA as of June 30, 2021, and the changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

This is the initial set of financial statements produced for EC3PA, as described further in Note 1. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Pittsburgh, Pennsylvania
March 29, 2022

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS **FOR THE YEAR ENDED JUNE 30, 2021**

The following presents management's discussion and analysis of Erie County Community College of Pennsylvania's (EC3PA) financial and operational activity during the fiscal year ended June 30, 2021. We intend for this management's discussion and analysis to provide the reader with information that will assist in understanding our Financial Statements, the changes in key items in those Financial Statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our Financial Statements. This analysis reflects on current activities, resulting changes, and currently known facts, and should be read in conjunction with EC3PA's Financial Statements, including the notes accompanying these Financial Statements. Responsibility for the completeness and fairness of this information rests with EC3PA management.

On July 8, 2020, the Pennsylvania State Board of Education approved the County of Erie's (County) Community College Plan to establish EC3PA. Since receiving approval, the County has prioritized taking the necessary steps to open the new community college for the inaugural 2021-2022 school year.

Using This Annual Report

The Financial Statements are designed to emulate business presentation models, whereby all EC3PA activities are consolidated. The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross costs and the net costs of EC3PA activities that are supported mainly by State Appropriations, Local Sponsor Appropriations, and Tuition and Fees. This approach is intended to summarize and simplify the user's analysis of both the revenues and the costs of various EC3PA services to students and the public. The Statement of Net Position is prepared on the accrual basis and presents all assets, deferred outflows of resources, deferred inflows of resources, and liabilities of EC3PA, both financial and capital, and classified between short- and long-term.

Financial Highlights

Primary revenue sources for EC3PA for the year ended June 30, 2021 were County and state appropriations, totaling \$2.7 million. Expenses totaled \$860,000, resulting in a positive change in net position of \$1.8 million for the year. EC3PA enrolled students for the inaugural class in July 2021. As a result, there were no operating revenues during the year ended June 30, 2021.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

	Net Position (in millions)	
	<u>As of June 30</u>	
	<u>2021*</u>	
Current Assets	\$	1.7
Non-Current Assets:		
Capital Assets, Net of Depreciation		<u>0.4</u>
Total Assets	\$	<u>2.1</u>
Current Liabilities	\$	0.3
Non-Current Liabilities		<u>0.0</u>
Total Liabilities	\$	<u>0.3</u>
Net Position:		
Investment in Capital Assets	\$	0.4
Restricted		0.0
Unrestricted		<u>1.4</u>
Total Net Position	\$	<u>1.8</u>

* June 30, 2021 is the first year of operations for EC3PA

Current Assets are \$1.7 million and consist of \$640,236 in cash and cash equivalents, \$423,756 of grants receivable, \$38,047 of other receivables, and \$585,176 in prepaid expenses. Non-Current Assets consist of \$371,620 in capital assets, which include software costs. There was no depreciation expense for the year ended June 30, 2021, as the assets were not placed in service until the subsequent fiscal year. Total Liabilities are \$263,661 for 2021 and include accounts payable of \$247,114 and payroll liabilities of \$16,547. The increase in Unrestricted Net Position can be attributed to Total Revenues being greater than Total Expenses by \$1.8 million.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

	Operating Results (in millions)
	For the Years Ended June 30,
	2021*
Operating Revenues:	
Tuition and Fees	\$ -
Less: Other Scholarships	-
Total Operating Revenues	-
Operating Expenses:	
Instruction	-
Academic Support	0.2
Student Services	-
Institutional Support	0.7
Operation and Facilities	-
Total Operating Expenses	0.9
Operating Loss	(0.9)
Nonoperating Revenues (Expenses):	
State Appropriations	0.4
Local Appropriations	2.3
Total Nonoperating Revenues (Expenses)	2.7
Increase (Decrease) in Net Position	1.8
Net Position:	
Beginning of Year	-
End of Year	\$ 1.8

* June 30, 2021 is the first year of operations for EC3PA

EC3PA enrolled students for the inaugural class in July 2021. As a result, there were no operating revenues for 2021. Total Operating Expenses were \$853,422 and relate mainly to personnel and start-up costs. Nonoperating Revenues (Expenses) total \$2.7 million and include state and local appropriations.

Fiscal Outlook

EC3PA will not be eligible to participate in Title IV, Federal Financial Aid Programs, until it has achieved Candidacy Status with a qualified Higher Education Accrediting Agency. EC3PA has started developing a relationship with the Middle States Commission on Higher Education (MSCHE) and is aligning our operational and program plan with its “Standards for Accreditation and Requirements of Affiliation.” The minimum time EC3PA must successfully operate a collegiate degree program acceptable to MSCHE is one academic year before applying for Candidacy Status. Candidacy Status is required before students will be eligible for receiving Title IV Financial Aid from the U.S. Department of Education. EC3PA intends to do everything within its ability to achieve that status in the 2022–2023 Academic Year and, thereby, enable its students to qualify for federal financial aid.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

During the 2021–2022 Academic Year at least, the absence of access to federal financial aid will be offset by budgeted scholarship resources equivalent to the projected need-based aid for which the students would normally be eligible. EC3PA has budgeted enough scholarship support to equate to 80% of the tuition level for all full-time students. The goal is to raise more scholarship support, which will cover the remaining 20% and some level of support for part-time students, as well.

State appropriations, County appropriations, and student tuition and fees are expected to compose EC3PA's principal revenue sources for the 2021-2022 Academic Year. The viability of each of these three critical revenue components is highly dependent on variables external to EC3PA such as enrollment trends, local and state economic conditions, federal, state, and local legislative actions, and others. EC3PA's ability to manage fluctuations within these revenue sources will be vital to its continued success.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF NET POSITION

JUNE 30, 2021

Assets	
Current assets:	
Cash and cash equivalents	\$ 640,236
Security Deposit	15,000
Grants receivable	423,756
Other receivable	38,047
Prepaid expenses	585,176
Total current assets	<u>1,702,215</u>
Noncurrent assets:	
Capital assets, net	<u>371,620</u>
Total noncurrent assets	<u>371,620</u>
Total Assets	<u><u>2,073,835</u></u>
Liabilities	
Current liabilities:	
Accounts payable	247,114
Payroll liabilities	16,547
Total current liabilities	<u>263,661</u>
Total Liabilities	<u>263,661</u>
Net Position	
Net investment in capital assets	371,620
Restricted:	
Expendable	15,000
Nonexpendable	-
Unrestricted	<u>1,423,554</u>
Total Net Position	<u><u>\$ 1,810,174</u></u>

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

Operating Revenues:

Student tuition and fees	\$	-
Less - other scholarships		-
Net student tuition and fees		-
Total operating revenues		-

Expenses:

Educational and general:		
Instruction		46
Academic support		118,239
Student services		-
Institutional support		720,636
Operation and facilities		14,501
Total operating expenses		853,422
Operating Income (Loss)		(853,422)

Nonoperating Revenues (Expenses):

State appropriations		423,756
Local appropriations		2,239,840
Net nonoperating revenues (expenses)		2,663,596

Change in Net Position		1,810,174
Net position - beginning of year		-
Net position - end of year	\$	<u>1,810,174</u>

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash Flows From Operating Activities:

Payments for Security deposit	\$	(15,000)
Payments to suppliers		(1,223,849)
Payments to utilities		(420)
Payments to employees		(97,012)
Net cash provided by (used in) operating activities		<u>(1,336,281)</u>

Cash Flows From Noncapital Financing Activities:

State appropriations		-
Local appropriations		2,239,840
Net cash provided by (used in) noncapital financing activities		<u>2,239,840</u>

Cash Flows From Capital and Related Financing Activities:

Purchases of capital assets		<u>(263,323)</u>
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Net Increase (Decrease) in Cash and Cash Equivalents

640,236

Cash and Cash Equivalents:

Beginning of year		<u>-</u>
End of year	\$	<u>640,236</u>

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

(Continued)

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used in) Operating Activities:

Operating income (loss)	\$	(853,422)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Change in assets and liabilities:		
Other receivable		(38,047)
Security deposit		(15,000)
Prepaid expenses		(585,176)
Accounts payable		138,817
Payroll liabilities		16,547
		<u>(482,859)</u>
Total adjustments		<u>(482,859)</u>
Net cash provided by (used in) operating activities	\$	<u><u>(1,336,281)</u></u>

Supplementary Information:

Accrued expenses related to capital financing activities	\$	<u><u>108,297</u></u>
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(Concluded)

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

1. Organization

Erie County Community College of Pennsylvania (EC3PA), established in 2020, offers associate's degrees and technical skills certificate programs that provide education and training at an affordable price to residents of the County of Erie (County) and the surrounding area for available and emerging jobs that do not require a baccalaureate degree. In addition, EC3PA provides the education many students need to succeed in a four-year program, as well as an affordable option for the first two years of college for those seeking a bachelor's degree. EC3PA is a component unit in the governmental reporting entity of the County. EC3PA is a legally separate organization for which the nature and significance of the relationship with the County is such that exclusion from the audited financials of the County would cause the financials of the County to be misleading or incomplete. As a result, EC3PA's financial statements will be included in the County's December 31, 2021 Annual Comprehensive Financial Report.

EC3PA is operated by a nine-member Board of Trustees (Board), who are appointed by the County Council of the County. Board members can be reappointed to six-year terms and are limited to serving no more than two successive terms including any initially appointed term. The Board has decision-making responsibility to significantly influence operations and primary accountability for fiscal matters. The County also appropriates and disburses funds to EC3PA that are utilized in the operation of EC3PA.

Classes are offered at four locations across Erie, Pennsylvania. Primary revenue sources for EC3PA for the year ended June 30, 2021 are County and state appropriations. State appropriations are to fund allowable operating and capital costs based upon formulas set by the Pennsylvania Department of Education. The County, as local sponsor of EC3PA, contributes to the operating and capital costs of EC3PA. EC3PA enrolled students for the inaugural class in July 2021. As a result, there were no student tuition and fees collected during the year ended June 30, 2021.

As defined by accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists solely of EC3PA, as there are no component units.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

2. Summary of Significant Accounting Policies

Basis of Presentation

EC3PA is a special-purpose government entity engaged in business-type activities. Accordingly, the financial statements have been prepared in accordance with GAAP, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when incurred. EC3PA follows accounting principles issued by the GASB. The presentation provides a comprehensive entity-wide perspective of EC3PA's assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues, expenses, and changes in net position, and the direct method of cash flow presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Liquid investments with maturities of three months or less are considered to be cash equivalents and are stated at fair value. Cash and cash equivalents that are restricted or intended for capital expenditures are classified as noncurrent assets and are not cash and cash equivalents for purposes of the statement of cash flows.

Grants Receivable

Grants receivable consist of amounts due for grants and contracts from federal, state, and local governments, or private sources, made in accordance with agreements. No uncollectible amounts have been reserved based on outstanding balance of the receivables for the year ended June 30, 2021, and all amounts are expected to be collected within one year.

Capital Assets

Acquired fixed assets are stated at cost at the date of acquisition. Donated fixed assets are recorded at their estimated fair value at the date of donation. The assets are being depreciated by the straight-line method over their estimated useful lives. Depreciation is

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

included as a separate functional expense category in the statement of revenues, expenses, and changes in net position. There was no depreciation expense for the year ended June 30, 2021, as the assets were not placed in service until the subsequent fiscal year. The estimated useful lives are as follows:

Improvements	15 years
Equipment and furniture	7 years
Software costs	5 years
Computer equipment	3 years

Expenditures for maintenance, repairs, and betterments that do not materially extend the useful life of an asset are charged to operations as incurred. Renewals and betterments that substantially extend an asset's useful life and are greater than \$4,000 are capitalized.

Compensated Absences

Beginning in fiscal year 2022, employees of EC3PA are entitled to paid vacation, paid sick days, and personal days off, depending on length of service. The estimated and accrued liability is recorded at year-end in the statement of net position, and the net change from prior year is recorded as a component of operating expense in the statement of revenues, expenses, and changes in net position. There were no compensated absences as of June 30, 2021.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources is a separate financial statement element that represents a consumption of net position that applies to future periods; therefore, it will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources is a separate financial statement element that represents an acquisition of net position that applies to future periods; therefore, it will not be recognized as an inflow of resources (revenue) until then. There are no deferred inflows or outflows of resources at June 30, 2021.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

Net Position

Net position is classified into three major categories:

- Net investment in capital assets - This category includes all of EC3PA's capital assets, net of accumulated depreciation, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets are also included in this component of net position.
- Restricted - Owned by EC3PA, but the use or purpose of the funds is restricted by an external source or entity. The restricted net position category is subdivided further into expendable and nonexpendable:
 - Expendable - can be expended in compliance with the external restriction
 - Nonexpendable – net position that is required to be retained in perpetuity
- Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Use of Restricted Net Position

When an expense is incurred that can be paid using either restricted or unrestricted resources, EC3PA's policy is to use restricted resources, when available, before using unrestricted resources to pay expenditures.

Classification of Revenue

Revenue is classified as either operating or non-operating:

- Operating revenue includes revenue from activities that have characteristics similar to exchange transactions. These include student tuition and fees (net of scholarship discounts), certain federal, state, local, and private grants, and contracts. As discussed in Note 1, EC3PA had no operating revenue for the year ended June 30, 2021, as EC3PA enrolled students for the inaugural class in July 2021.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

- Non-operating revenue includes revenue from activities that have the characteristics of non-exchange transactions, such as appropriations and certain federal, state, and local grants. The implication is that such revenues are derived from more passive efforts related to the acquisition of the revenue, rather than the earning of it.

Income Taxes

EC3PA is exempt from federal income taxes under Section 115 of the Internal Revenue Code (IRC).

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 87 (Leases), 89 (Accounting for Interest Cost), 91 (Conduit Debt Obligations), 92 (Omnibus 2020), 93 (Interbank Offered Rates), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), and 97 (Deferred Compensation Plans). Management has not yet determined the impact of these statements on the financial statements.

3. Deposits and Cash Equivalents

EC3PA Deposits

The carrying amount of EC3PA's cash and cash equivalents was \$640,236 at June 30, 2021. Of these balances, \$349,963 was covered by the Federal Deposit Insurance Corporation (FDIC), and the remaining balances were secured by pledged bank collateral under the pooled collateral agreement described in Pennsylvania Act 72. EC3PA does not carry any bank balance over and above the insured and secured amounts.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

4. Capital Assets

	Balance at July 1, 2020	Additions	Transfers	Deletions	Balance at June 30, 2021
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-	-
Capital assets, being depreciated:					
Improvements	-	-	-	-	-
Equipment and furniture	-	-	-	-	-
Software costs (see Note 2)	-	371,620	-	-	371,620
Total capital assets, being depreciated	-	371,620	-	-	371,620
Less total accumulated depreciation	-	-	-	-	-
Net capital assets, being depreciated	-	371,620	-	-	371,620
Net capital assets	\$ -	\$ 371,620	\$ -	\$ -	\$ 371,620

5. Operating Leases

EC3PA leases facilities under short-term, noncancelable operating lease agreements. The leases expire at various dates through 2022. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties. Lease expense totaled \$12,731 during fiscal year 2021.

Future minimum rental payments required under the operating lease agreements for operating leases are \$210,555 for fiscal year ending 2022.

6. Risk Management and Contingencies

EC3PA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

Management believes the insurance coverage is sufficient to cover EC3PA against potential losses.

The tuition and fees for the inaugural class of students for the academic year 2021 to 2022 (fiscal year ended June 30, 2022) are being funded by student payments, the Erie Community Foundation, and Erie County. For EC3PA to continue to evolve, it must gain full accreditation including the ability to distribute federal student financial aid. Management believes those goals will be achieved.