

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

Single Audit

Years Ended June 30, 2022
with Independent Auditor's Reports

MaherDuessel

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ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

YEAR ENDED JUNE 30, 2022

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Independent Auditor's Report

**Board of Trustees
Erie County Community College of Pennsylvania**

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise EC3PA's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of EC3PA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about EC3PA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 EC3PA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about EC3PA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise EC3PA's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited EC3PA's fiscal year-end 2021 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 29, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022 on our consideration of EC3PA'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 solely 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 effectiveness of EC3PA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EC3PA's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Maher Dussel".

Pittsburgh, Pennsylvania
December 22, 2022

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS **FOR THE YEAR ENDED JUNE 30, 2022**

The following presents management's discussion and analysis of Erie County Community College of Pennsylvania's (EC3) financial and operational activity during the fiscal year ended June 30, 2022. 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 EC3's Financial Statements, including the notes accompanying these Financial Statements. Responsibility for the completeness and fairness of this information rests with EC3 management.

On July 8, 2020, the Pennsylvania State Board of Education approved the County of Erie's (County) Community College Plan to establish EC3. 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 EC3 activities are consolidated. The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross costs and the net costs of EC3 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 EC3 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 EC3, both financial and capital, and classified between short- and long-term.

Financial Highlights

EC3 opened its doors in 2021-2022 for the inaugural year of student enrollment. Primary revenue sources for EC3 for the year ended June 30, 2022 were County and state appropriations, totaling \$6.2 million. In addition, student tuition and fees revenue was received both from student payments and from the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) grant from Erie County which covered in-county students. Expenses totaled approximately \$4.9 million resulting in a positive change in net position of \$2.3 million for the year.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

	Net Position As of June 30		
	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 5,542,653	\$ 1,702,215	\$ 3,840,438
Non-Current Assets:			
Capital Assets, Net of Depreciation	1,306,663	371,620	935,043
Right of use asset - lease, net	101,022	-	101,022
 Total Assets	 <u>\$ 6,950,338</u>	 <u>\$ 2,073,835</u>	 <u>\$ 4,876,503</u>
 Current Liabilities	 \$ 2,799,688	 \$ 263,661	 \$ 2,536,027
Non-Current Liabilities	14,285	-	14,285
 Total Liabilities	 <u>\$ 2,813,973</u>	 <u>\$ 263,661</u>	 <u>\$ 2,550,312</u>
 Net Position:			
Investment in Capital Assets	\$ 1,306,663	\$ 371,620	\$ 935,043
Restricted - Expendable	15,000	15,000	-
Unrestricted	2,814,702	1,423,554	1,391,148
 Total Net Position	 <u>\$ 4,136,365</u>	 <u>\$ 1,810,174</u>	 <u>\$ 2,326,191</u>

Fiscal year 2022 versus 2021

Current Assets of EC3 include cash and cash equivalents, student accounts receivable, grants receivable, security deposit, and prepaid expenses. The excess of current assets over current liabilities of approximately \$2.7 million reflects the ability of EC3 to meet its short-term obligations. Total current assets increased approximately \$3.8 million, primarily due to increases in cash and grants receivable from the state. Noncurrent assets relating to capital assets increased approximately \$935,000 due to capital additions for equipment and hardware/software costs. The right of use asset – lease increased approximately \$101,000 relating to multiple leases during the year that applied to the GASB 87 lease standard implementation.

Current liabilities of EC3 include accounts payable, payroll liabilities, unearned revenue, and the current portion of lease liabilities. Total current liabilities increased \$2.5 million which primarily relates to a \$2.4 million increase in unearned revenue for two grants that were received but not fully spent as of year-end.

EC3's total Net Position increased in fiscal year 2022 to approximately \$4.1 million. Approximately \$1.3 million is the value of the Net Investment in Capital Assets; \$15,000 is restricted – expendable; and approximately \$2.8 million is classified as Unrestricted. The net investment in capital assets increased by approximately \$935,000 and unrestricted net position increased by approximately \$1.4 million.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Net Position</u> <u>As of June 30</u>
	<u>2021*</u>
Current Assets	\$ 1,702,215
Non-Current Assets:	
Capital Assets, Net of Depreciation	<u>371,620</u>
 Total Assets	 <u>\$ 2,073,835</u>
 Current Liabilities	 \$ 263,661
Non-Current Liabilities	<u>-</u>
 Total Liabilities	 <u>\$ 263,661</u>
 Net Position:	
Investment in Capital Assets	\$ 371,620
Restricted	15,000
Unrestricted	<u>1,423,554</u>
 Total Net Position	 <u>\$ 1,810,174</u>

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

Fiscal year 2021

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, 2022

	Operating Results		
	For the Years Ended June 30, *		
	2022	2021	Increase (Decrease)
	<hr/>	<hr/>	<hr/>
Operating Revenues			
Student Tuition and Fees	\$ 179,179	\$ -	\$ 179,179
Student Tuition and Fees - County CSLFRF grant	510,621	-	510,621
Other Operating	19,248	-	19,248
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	709,048	-	709,048
Less: Operating Expenses	4,901,301	853,422	4,047,879
Operating Loss	(4,192,253)	(853,422)	(3,338,831)
	<hr/>	<hr/>	<hr/>
Nonoperating Revenues (Expenses):			
State Appropriations	961,244	423,756	537,488
Local Appropriations	3,500,362	2,239,840	1,260,522
County CSLFRF Grant	362,004	-	362,004
Investment Income	4,097	-	4,097
	<hr/>	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	4,827,707	2,663,596	2,164,111
State appropriations and grants - capital	1,690,737	-	1,690,737
	<hr/>	<hr/>	<hr/>
Change in Net Position	2,326,191	1,810,174	516,017
Net Position - Beginning of year	1,810,174	-	1,810,174
Net Position - End of year	<u>\$ 4,136,365</u>	<u>\$ 1,810,174</u>	<u>\$ 2,326,191</u>

Fiscal year 2022 versus 2021

For fiscal year 2022, operating revenues increased approximately \$709,000, operating expenses increased approximately \$4 million, nonoperating revenues (expenses) increased approximately \$2.2 million, and state appropriations and grants – capital increased \$1.7 million.

The most significant operating revenues for EC3 relate to student tuition and fees were received both from student payments and from the CSLFRF grant received from the County to cover in-county student tuition. As fiscal year 2022 was the first year of student enrollment, it was accordingly the first year of receiving these revenues. Similarly, the significant increase in operating costs from 2021, primarily in academic support and institutional support, relates to the full year of operations with student enrollment for the college.

Nonoperating revenue increases primarily relate to additional state and local appropriations as well as approximately \$362,000 of the CSLFRF grant from Erie County to cover a laptop purchase.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

	Operating Results	
	<u>For the Years Ended June 30, *</u>	
	<u>2021</u>	
Operating Revenues		
Student Tuition and Fees	\$	-
Student Tuition and Fees - County CSLFRF grant		-
Other Operating		-
		<hr/>
Total Operating Revenues		-
		<hr/>
Less: Operating Expenses		853,422
Operating Loss		<hr/> (853,422) <hr/>
Nonoperating Revenues (Expenses):		
State Appropriations		423,756
Local Appropriations		2,239,840
County CSLFRF Grant		-
Investment Income		-
		<hr/>
Total Nonoperating Revenues (Expenses)		2,663,596
		<hr/>
State appropriations and grants - capital		-
		<hr/>
Change in Net Position		1,810,174
Net Position - Beginning of year		-
Net Position - End of year	\$	<hr/> 1,810,174 <hr/>

Fiscal year 2021

EC3 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

EC3 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. EC3 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 EC3 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. EC3 intends to do everything within its ability to achieve that status in the 2023–2024 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, 2022

During the 2022–2023 Academic Year, 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. EC3 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 EC3's principal revenue sources for the 2022-2023 Academic Year. The viability of each of these three critical revenue components is highly dependent on variables external to EC3 such as enrollment trends, local and state economic conditions, federal, state, and local legislative actions, and others. EC3's Leadership Team and its Board of Trustees are confident that they have put in place a Management team that possess the skills and capabilities to manage the fluctuations within these revenue sources and bring the Community College to its primary goal of a successful accreditation of the College.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF NET POSITION

JUNE 30, 2022

(With Comparative Totals at June 30, 2021)

	2022	2021
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 3,871,918	\$ 640,236
Student accounts receivable	95,977	-
Grants receivable	937,500	423,756
Other receivable	-	38,047
Security deposit	15,000	15,000
Prepaid expenses	622,258	585,176
Total current assets	5,542,653	1,702,215
Noncurrent assets:		
Capital assets, net	1,306,663	371,620
Right of use asset - lease, net	101,022	-
Total noncurrent assets	1,407,685	371,620
Total Assets	6,950,338	2,073,835
Liabilities		
<hr/>		
Current liabilities:		
Accounts payable	96,116	247,114
Payroll liabilities	197,530	16,547
Unearned revenues	2,405,020	-
Lease liability, current portion	101,022	-
Total current liabilities	2,799,688	263,661
Noncurrent liabilities:		
Lease liability	14,285	-
Total noncurrent liabilities	14,285	-
Total Liabilities	2,813,973	263,661
Net Position		
<hr/>		
Net investment in capital assets	1,306,663	371,620
Restricted:		
Expendable	15,000	15,000
Nonexpendable	-	-
Unrestricted	2,814,702	1,423,554
Total Net Position	\$ 4,136,365	\$ 1,810,174

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, 2022
(With Comparative Totals for Year Ended June 30, 2021)

	2022	2021
Operating Revenues:		
Student tuition and fees	\$ 179,179	\$ -
Student tuition and fees - County CSLRF grant	510,621	-
Support and grant agreement	3,000	-
Other operating income	16,248	-
	709,048	-
Total operating revenues	709,048	-
Expenses:		
Educational and general:		
Instruction	76,616	46
Academic support	885,100	118,239
Institutional support	3,188,538	720,636
Operation and facilities	172,575	14,501
Scholarships and program	48,692	-
Depreciation/amortization	498,292	-
Interest expense - leases	31,488	-
	4,901,301	853,422
Total operating expenses	4,901,301	853,422
Operating Income (Loss)	(4,192,253)	(853,422)
Nonoperating Revenues (Expenses):		
State appropriations	961,244	423,756
Local appropriations	3,500,362	2,239,840
County CSLFR grant	362,004	-
Investment income	4,097	-
	4,827,707	2,663,596
Net nonoperating revenues (expenses)	4,827,707	2,663,596
State appropriations and grants - capital	1,690,737	-
Change in Net Position	2,326,191	1,810,174
Net position - beginning of year	1,810,174	-
Net position - end of year	\$ 4,136,365	\$ 1,810,174

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

(With Comparative Totals for Year Ended June 30, 2021)

	2022	2021
Cash Flows From Operating Activities:		
Payments received for grants and contracts	\$ 2,408,020	\$ -
Payments received for tuition and fees	593,823	-
Payments for Security deposit	-	(15,000)
Payments to suppliers	(2,563,435)	(1,223,849)
Payments to utilities	(57,881)	(420)
Payments to employees	(1,517,107)	(97,012)
Payments on leases	(114,694)	-
Payments of grants and scholarships	(48,692)	-
Other receipts	54,295	-
Net cash provided by (used in) operating activities	(1,245,671)	(1,336,281)
Cash Flows From Noncapital Financing Activities:		
State appropriations	1,385,000	-
Local appropriations	2,562,862	2,239,840
County CSLRF grant	362,004	-
Net cash provided by (used in) noncapital financing activities	4,309,866	2,239,840
Cash Flows From Capital and Related Financing Activities:		
State appropriations	1,690,737	-
Purchases of capital assets	(1,357,939)	(263,323)
Principal paid on lease	(169,408)	-
Net cash provided by (used in) capital and related financing activities	163,390	(263,323)
Cash Flows From Investing Activities:		
Investment income	4,097	-
Net cash provided by (used in) investing activities	4,097	-
Net Increase (Decrease) in Cash and Cash Equivalents	3,231,682	640,236
Cash and Cash Equivalents:		
Beginning of year	640,236	-
End of year	\$ 3,871,918	\$ 640,236

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

(With Comparative Totals for Year Ended June 30, 2021)

(Continued)

	2022	2021
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ (4,192,253)	\$ (853,422)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation/amortization	498,292	-
Change in assets and liabilities:		
Receivables, net	(57,930)	(38,047)
Security deposit	-	(15,000)
Prepaid expenses	(37,082)	(585,176)
Accounts payable	(42,701)	138,817
Payroll liabilities	180,983	16,547
Unearned revenues	2,405,020	-
Total adjustments	2,946,582	(482,859)
Net cash provided by (used in) operating activities	\$ (1,245,671)	\$ (1,336,281)
Supplementary Information:		
Accrued expenses related to capital financing activities	\$ -	\$ 108,297

(Concluded)

See accompanying notes to financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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, EC3PAPA 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. EC3PAPA is a component unit in the governmental reporting entity of the County. EC3PAPA 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, EC3PAPA's financial statements will be included in the County's December 31, 2022 Annual Comprehensive Financial Report.

EC3PAPA 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 EC3PAPA that are utilized in the operation of EC3PAPA.

Classes are offered at four locations across Erie, Pennsylvania. Primary revenue sources for EC3PAPA for the year ended June 30, 2022 are County and state appropriations, local grants, and tuition and fees. 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 EC3PAPA, contributes to the operating and capital costs of EC3PAPA. EC3PAPA enrolled students for the inaugural class in July 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 EC3PAPA, as there are no component units.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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, liabilities, net position, revenues, expenses, and changes in net position, and the direct method of cash flow presentation.

Prior-Year Comparative Information

The financial statements include summarized prior year comparative information. Such information does not include the prior year footnote disclosures and, thus, does not include all of the information required for a presentation in accordance with accounting principle generally accepted in the United States of America. Accordingly, such information should be read in conjunction with EC3PA's financial information for the year-end June 30, 2021 from which the summarized information was derived.

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 consists of amounts due for contracts from local governments, or private sources, made in accordance with agreements. No uncollectible amounts have been

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

reserved based on outstanding balance of the receivables for the year ended June 30, 2022, and all amounts are expected to be collected within one year.

Capital Assets

Acquired capital assets are stated at cost at the date of acquisition. Donated capital 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 included as a separate functional expense category in the statement of revenues, expenses, and changes in net position. Depreciation on assets has been provided using the straight-line method over the estimated useful lives, as follows:

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

Expenses 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.

Leases

Commencing with fiscal year end June 30, 2022, EC3PA lease agreements are recognized as a lease liability and an intangible right-to-use lease asset (lease asset) at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term, less any lease incentives. The lease asset is measured at the amount of the initial measurement of the lease liability, adjusted for any payments made to the lessor at or before the commencement of the lease term plus certain initial direct costs. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is amortized on the straight-line method over the shorter of the lease term or the useful life of the underlying asset. Short-term leases are defined as leases that, at the commencement of the lease term, have a maximum possible term under the lease contract of 12 months or less, including any options to extend, regardless of their probability of being exercised. Short-term lease payments are recognized as expenditures based on the payment provisions of the lease contract. An asset is recognized if payments are made in advance or a liability for rent due if payments are to be made subsequent to the reporting period.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Key estimates and judgments related to leases include how EC3PA determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- EC3PA uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, EC3PA generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that EC3PA is reasonably certain to exercise.

EC3PA monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Leases are reported as right of use asset - leases and lease liability on the statement of net position.

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. As paid time off is a “use-it-or-lose-it” policy, there was no compensated absence liability as of June 30, 2022.

Unearned Revenues

Advance payments received for grant funding are deferred and recorded as revenues are earned.

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, 2022.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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 – The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Two categories are used to further describe restricted net position:
 - 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 expenses.

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.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

- 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).

Adopted Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases*," requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The following GASB Statements were also adopted for the year ended June 30, 2022: Statement Nos. 92 (Omnibus 2020), 97 (Deferred Compensation Plans), and 99 (Omnibus 2022 – paragraphs 26 through 32). These statements had no significant impact on EC3PA's financial statements for the year ended June 30, 2022.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 91 (Conduit Debt Obligations), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), 99 (Omnibus 2022), 100 (Accounting Changes and Error Corrections), and 101 (Compensated Absences). Management has not yet determined the impact of these statements on the financial statements.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

3. Deposits and Cash Equivalents

Deposits

Under Section 440.1 of the Pennsylvania Public School Code for 1949, as amended, and PA Act 10 of 2016, BCCC is permitted to invest funds consistent with sound business practices in the following types of investments:

Obligations of (a) 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, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of 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.

U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) 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, are pledged by the depository.

Custodial Credit Risk – deposits. The carrying amount of EC3PA's cash and cash equivalents was \$3,871,918 at June 30, 2022. Of these balances, \$279,729 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, 2022

4. Capital Assets

	Balance at July 1, 2021	Additions	Transfers	Deletions	Balance at June 30, 2022
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-	-
Capital assets, being depreciated:					
Improvements	-	27,479	-	-	27,479
Equipment and furniture	-	61,631	-	-	61,631
Hardware and software costs	371,620	1,161,257	-	(725)	1,532,152
Total capital assets, being depreciated	371,620	1,250,367	-	(725)	1,621,262
Less total accumulated depreciation	-	314,599	-	-	314,599
Net capital assets, being depreciated	371,620	935,768	-	(725)	1,306,663
Net capital assets	\$ 371,620	\$ 935,768	\$ -	\$ (725)	\$ 1,306,663

5. Leases

EC3PA has entered into various leases for buildings. It is expected that in the normal course of business, such leases will continue to be required. The following lease is recognized as a lease liability and lease asset at the commencement of the lease term:

In December 2021, EC3PA entered into a lease agreement for classroom and office space in Erie County at the Corry Higher Education Council Building. The terms of the lease began January 1, 2022 for a period of 12 months with one option to extend for an additional 12 months through December of 2023. EC3PA has determined that the option to extend will be exercised. An initial lease liability was recorded in the amount of \$68,163 during fiscal year 2022. As of June 30, 2022, the value of the lease liability was \$42,176. EC3PA was required to make annual payments of \$30,000. The incremental borrowing rate for the lease is 5%. The value of the right-to-use asset as of the end of the current fiscal year was \$68,163 and had accumulated amortization of \$40,272.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

In July 2021, EC3PA entered into a lease agreement for space and parking in Erie County at the Saint Benedict Education Center. The terms of the lease began July 1, 2021 for a period of 12 months with one option to extend for an additional 6 months through December of 2022, which was exercised. An initial lease liability was recorded during fiscal year 2022 in the amount of \$143,421 for the first 12 months and \$73,131 for the additional 6 months. As of June 30, 2022, the value of the lease liability was \$73,131. EC3PA was required to make payments totaling \$172,896 during fiscal year 2022. The incremental borrowing rate for the first 12 months of the lease is 3% and 5% for the additional 6 months. The value of the right-to-use asset as of the end of the current fiscal year was \$216,552 and had accumulated amortization of \$143,421.

The right of use asset at June 30, 2022 consists of the following:

	June 30, 2021	Additions	Deletions	June 30, 2022
Right of use asset	\$ -	\$ 284,715	\$ -	\$ 284,715
Accumulated amortization	-	(183,693)	-	(183,693)
Net right to use asset	\$ -	\$ 101,022	\$ -	\$ 101,022

The lease liability at June 30, 2022 consists of the following:

	June 30, 2021	Additions	Deletions	June 30, 2022	Due within one year
Lease liability	\$ -	\$ 284,715	\$ (169,408)	\$ 115,307	\$ 101,022

Future minimum lease payments on the leases are as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 101,022	\$ 15,426	\$ 116,448
2024	14,285	715	15,000
	\$ 115,307	\$ 16,141	\$ 131,448

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

6. Unearned Revenue

Unearned revenue consists of grant funding received in advance of the period in which it relates. At June 30, 2022, the unearned revenue balance of \$2,405,020 includes funding from two grants that are to be utilized for student tuition and fees and to provide support for student enrollment.

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

In June 2022, EC3PA entered into a lease agreement for classroom and office space in Erie County. The terms of the lease began July 1, 2022 and extend for 15 years through June 1, 2037 with lease payments totaling \$500,000 per year.

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 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.

8. Employee Benefit Plan

EC3PA has established a 403(b) defined contribution pension plan that will be operational in fiscal year 2023. The plan covers all employees as of their hire date who work greater than 20 hours per week. The amount of EC3PA's discretionary matching contribution will be determined each year and is to be equal to a uniform percentage or dollar amount of elective deferrals. At June 30, 2022, EC3PA accrued approximately \$120,000 as a catch up contribution to the plan.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Federal ALN</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of the Treasury:					
Passed through Erie County:					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	CSLFRF.FY2021.09	12/1/21-12/31/24	\$ 872,625	\$ -
Total U.S. Department of the Treasury				<u>872,625</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 872,625</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Erie County Community College (EC3) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of EC3, it is not intended to and does not present the financial position or changes in net position of EC3.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

EC3 has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Reports
Required by
the Uniform Guidance

Year Ended June 30, 2022

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

**Board of Trustees
Erie County Community College of Pennsylvania**

We have audited, in accordance with the 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, the financial statements of the business-type activities of Erie County Community College (EC3PA), a component unit of Erie County, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise EC3PA's basic financial statements, and have issued our report thereon dated December 22, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered EC3PA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EC3PA's internal control. Accordingly, we do not express an opinion on the effectiveness of EC3PA's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether EC3PA's financial statements are free from 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 financial statements. 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*.

EC3PA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on EC3PA's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. EC3PA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pittsburgh, Pennsylvania
December 22, 2022

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Erie County Community College of Pennsylvania

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited Erie County Community College of Pennsylvania's (EC3PA) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on EC3PA's major federal program for the year ended June 30, 2022. EC3PA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on the Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, EC3PA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of EC3PA and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of EC3PA's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on the Coronavirus State and Local Fiscal Recovery Funds Program

As described in the accompanying schedule of findings and questioned costs, EC3PA did not comply with requirements regarding Federal ALN 21.027 Coronavirus State and Local Fiscal Recovery Funds Program as described in finding number 2022-002 Internal Control and Financial Reporting and Account Adjustments and finding number 2022-003 for Internal Control and Compliance over Procurement.

Compliance with such requirements is necessary, in our opinion, for EC3PA to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to EC3PA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on EC3PA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about EC3PA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

Board of Trustees
Erie County Community College of Pennsylvania
Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding EC3PA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of EC3PA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of EC3PA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003 to be material weaknesses.

Board of Trustees
Erie County Community College of Pennsylvania
Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on EC3PA's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. EC3PA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Pittsburgh, Pennsylvania
December 22, 2022

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

5. Type of auditor's report issued on compliance for major programs: Qualified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

21.027

COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? yes no

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

- II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Finding 2022-001: Segregation of Duties Over Cash Disbursement and Cash Receipt Processes

Criteria: A strong internal control structure requires that duties be segregated so that one person does not control all aspects of an accounting function. The handling of and accounting for cash receipts and cash disbursements need to be segregated if all of the control objectives are to be met. Ideally, those who deposit checks do not have access to cash receipt supporting documents or have control over accounting records and are not involved in reconciling bank accounts. Furthermore, those who perform the cash disbursement functions of authorizing, issuing, and signing checks, should not be involved in processing vendor invoices, maintaining accounts payable records, or involved in reconciling bank accounts.

Condition: During the audit process, we noted a lack of segregation of duties exists in the process of cash disbursements and cash receipts. The majority of all accounting functions during the year were the sole primary responsibility of the Controller.

Cause: The small staff size and lack of policies, procedures, and overall structure within the Finance Office created an improper control environment and made the Finance Office functioning very vulnerable when turnover occurred.

Effect: Due to the majority of all accounting functions during the year being the sole primary responsibility of the controller, the potential exists that errors or fraud could occur and not be detected.

Recommendation: We recommend that the cash disbursement and cash receipt duties noted above be segregated to the extent possible by utilizing additional Erie County Community College of Pennsylvania (EC3PA) employees in these processes to build the structure of the Finance Office. In addition, assessment should be made of the proper staffing of the Finance Department to allow for growth of EC3PA as well as the development of written policies and procedures for all key financial activities.

View of Responsible Officials and Planned Corrective Action: EC3PA agrees with the recommendation of its auditors, Maher Duessel, that the EC3PA Finance Department ensure that the cash disbursement and cash receipt duties and responsibilities at EC3PA must be segregated to the extent possible by utilizing additional EC3PA employees in these processes to build the structure of the Finance Department. As of July 2022, the Finance office has segregated the cash receipts and disbursement duties within the finance department between the Controller/Treasurer and the Accountant. EC3PA agrees with the recommendation of its auditors, Maher Duessel, that as EC3PA experiences growth it growth must coincide with the growth of the EC3PA Finance Department in order to ensure the development of written policies and procedures for all key financial activities. EC3PA will add staffing to its Finance Department in unison with the growth of the College.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Finding 2022-002: Internal Control over Financial Reporting and Account Adjustments

Criteria: Auditing standards continue to place emphasis on determining an entity's ability to fully prepare their own external financial statements, including the posting of all adjustments necessary to present financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and evaluating the need for all necessary financial statement disclosures.

Condition: During the audit process, several material adjustments involving capital asset additions, depreciation expense, student tuition and fees, federal and local grant revenue and unearned revenue, leases, prepaids, and payroll liabilities were proposed by the auditors in order that the financial statements could be prepared in accordance with GAAP. Then, using the information provided by management, the auditors prepared the GAAP financial statements, which were subsequently reviewed by management. These adjustments were necessary to properly reflect current year operations and account balances as of the year-end.

Cause: EC3PA has experienced key personnel turnover within the Finance Department.

Effect: Adjustments were required to be recorded in order for the financial statements to be prepared in accordance with GAAP.

Questioned costs: None

Recommendation: We recommend that management evaluate the internal controls over the financial reporting process to ensure that the financial statements can be prepared internally in accordance with GAAP. Ideally, this would include ensuring that account balances are properly recorded and the supporting reconciliations are kept up to date to support the activity from month to month to ensure that accurate account information is being produced.

View of Responsible Officials and Planned Corrective Action: EC3PA agrees with the recommendation of its auditors, Maher Duessel, that EC3PA Finance Department must ensure that the proper GAAP's concerning capital asset additions, depreciation expense, student tuition, fees, federal and local grant revenue and unearned revenue, leases, prepaids, and payroll liabilities are accurately approved, recorded, and reconciled on a timely basis to ensure that the financial statements can be prepared internally in accordance with GAAP. The financials must be provided to Management for review and approval at year-end for the auditors to prepare their independent audit, based on the financial statements presented to them by Management. As of July 2022, the Finance Department has recognized the lack of internal control over the financial reporting process. The Finance Department is currently reviewing and adjusting all account balances, ensuring that the past and current transactions have support documentation and are accurately recorded. This includes performing all reconciliations of balance sheet accounts to ensure the financial activity of EC3PA is presented accurately and is compliant with GAAP.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

III. Findings and questioned costs for federal awards.

Finding 2022-002: Internal Control over Financial Reporting and Account Adjustments as described above in section II

Finding 2022-003: Internal Control and Compliance over Procurement

Federal Agency: Department of the Treasury

Program: Coronavirus State and Local Fiscal Recovery Funds: 21.027

Criteria: In accordance with Uniform Guidance procurement requirements found in 2 CFR Part 200.318 through 200.237, EC3PA is required to ensure that procurement methods used for purchases are appropriate based on the dollar amount of the purchase.

Condition: EC3PA could not provide evidence that the purchase of 300 laptops for an aggregate purchase price of \$362,004 followed formal procurement procedures. The purchase exceeded both the \$30,000 procurement threshold for competitive bids set by EC3PA's purchasing policy and the Uniform Guidance simplified acquisition threshold of \$250,000. In addition, in accordance with the Uniform Guidance, a purchase price from the Commonwealth of Pennsylvania COSTARS cooperative purchasing program is considered to be only one competitive price proposal and it cannot replace a full procurement process.

Cause: Procedures in place to ensure that the proper procurement process is followed were not adequate.

Effect: EC3PA was not in compliance with the procurement requirements of the Uniform Guidance.

Questioned costs: \$362,004 based on invoice for purchase of 300 laptops applied to the program.

Recommendation: We recommend that EC3PA establish procedures to ensure that their purchasing policy is followed including the use of competitive bids or proposals, when appropriate.

View of Responsible Officials and Planned Corrective Action: EC3PA agrees with the recommendation of its auditor, Maher Duessel, that the EC3PA Finance Department must ensure that EC3PA follows the approved and compliant purchasing practices. However, in the beginning, the College was still in a start-up mode and most of its essential purchases from Vendors could not meet EC3PA's aggressive timetable to get the College up and running.

So being practical, the College needed to act fast to get its provisions in place to get the College up and running, and although this was an informal process, the Management team diligently reviewed, justified, and approved all the purchases based on the supporting documentation.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

As of August 2022, the Finance Department has recognized the lack of internal control over the financial purchasing process and has informally enforced the purchasing policy. The Finance Department will be reviewing all EC3PA financial policies, including its purchasing policy and will be making recommendations to the EC3PA's Cabinet and Board of Trustees. The Finance Department will and must enforce the purchasing policy, once approved, update the policy online and ensure the policy is followed by EC3PA staff and its compliant with the Commonwealth of Pennsylvania Policies.

ERIE COUNTY COMMUNITY COLLEGE OF PENNSYLVANIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2022

No Single Audit in the Prior Year