



2004  
COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT

YEAR ENDING DECEMBER 31, 2004

CITY OF ERIE  
PENNSYLVANIA

*Richard E. Filippi, Mayor*

**CITY OF ERIE, PENNSYLVANIA**

Comprehensive Annual Financial Report

December 31, 2004



Prepared By:

Department of Administration and Finance

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**CITY OF ERIE, PENNSYLVANIA**  
**Comprehensive Annual Financial Report**  
**Year ended December 31, 2004**

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REQUIRED SUPPLEMENTARY INFORMATION:

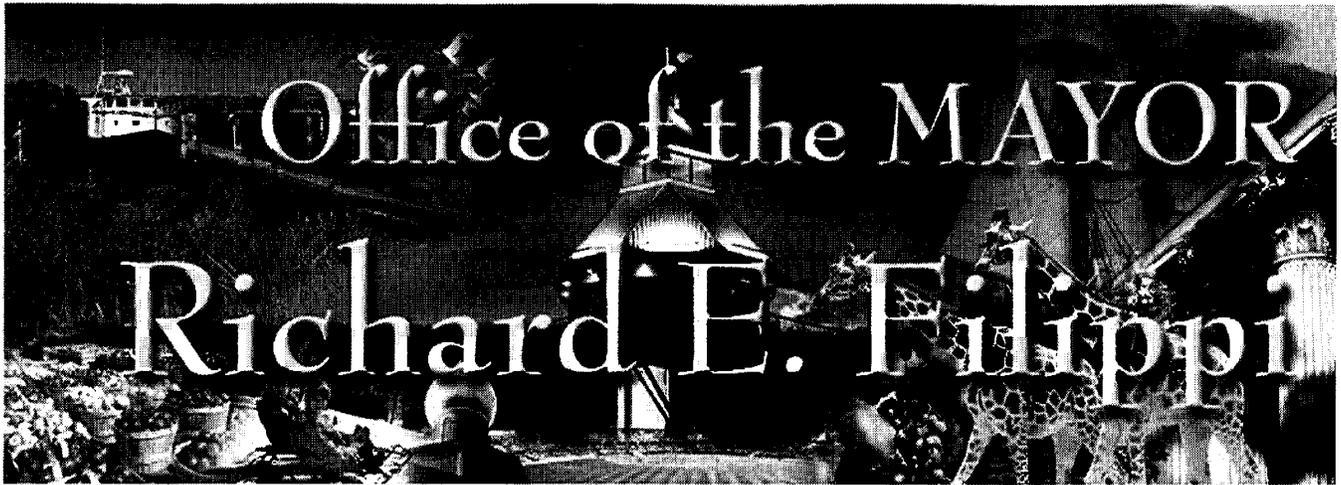
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# INTRODUCTORY SECTION



August 1, 2005

To: **Honorable Members of City Council  
and Citizens of the City of Erie, Pennsylvania:**

The Comprehensive Annual Financial Report of the City of Erie, Pennsylvania, for the fiscal year ended December 31, 2004 is hereby submitted. This report was prepared by the City's Department of Administration and Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is presented fairly in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of the various funds. We believe all disclosures necessary to enable the reader to gain a complete understanding of the City's financial affairs have been included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, the government's organizational chart and the list of principal officials,. The Financial Section includes the independent auditor's report on the basic financial statements, Management's Discussion and Analysis, the new government-wide financial statements, the major individual governmental fund financial statements and other Required Supplementary Information (RSI) on nonmajor governmental funds, trust and agency funds. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The City of Erie, Pennsylvania is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-128. Information related to this single audit, including a schedule of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report.

The City provides a full range of municipal services, including those mandated by statute or ordinance:

POLICE AND FIRE PROTECTION  
STREET CONSTRUCTION AND MAINTENANCE  
SANITATION  
ECONOMIC AND COMMUNITY DEVELOPMENT

WATER SERVICE  
SEWER SERVICE  
PARKS AND RECREATION  
GENERAL ADMINISTRATIVE SERVICES

In addition, various boards, commissions and pension organizations are included with the financial statements as follows:

**BOARDS:**

AGGREGATE PENSION	BUILDING CODE APPEALS	ELECTRICAL CONTRACTOR LICENSE EXAMINATION
ERIE RECREATION	HOUSING APPEALS	CIVIL SERVICE
INCOME TAX POLICY	LICENSE EXAMINERS	ZONING HEARING

**COMMISSIONS:**

BUILDING CODE	CITY PLANNING	COMMUNITY DEVELOPMENT
ELECTRICAL CODE	PLUMBING CODE	TRAFFIC
SHADE TREE		

**PENSIONS:**

OFFICERS AND EMPLOYEES' RETIREMENT FUND  
FIREFIGHTER'S PENSION FUND  
POLICE RELIEF AND PENSION ASSOCIATION

The City of Erie has various municipal authorities, which operate within the City. They are reported in a separate column to emphasize that they are legally separate from the City. The City (Mayor and/or City Council) appoints the governing bodies of all of these component units.

The following entities have been included as discretely presented component units:

Redevelopment Authority of the City of Erie  
Erie Parking Authority  
Erie Municipal Park Authority  
Erie Metropolitan Transit Authority  
Erie Sewer Authority

Additionally, other municipal authorities, a non-profit corporation, and a council created by the City but which operates independent of City budget control or fiscal management, have been excluded.



The following entities have been excluded:

Erie City Water Authority	Higher Education Building Authority
City of Erie Housing Authority	Erie Zoological Society
Erie Municipal Airport Authority	Erie County Solid Waste Management Council
Erie Western Pennsylvania Port Authority	

## **ECONOMIC CONDITION AND OUTLOOK**

In preparing the 2004 budget the Administration continued to use and expand upon the Mayor's Blueprint for Progress. The Blueprint for Progress defines its priorities as:

1. Neighborhood Revitalization - the cornerstone to a healthy city.
2. Proactive Economic Development – creating opportunities for business growth, investment, job creation and retention.
3. Public Safety – creating a safe environment to work, live and raise a family.
4. Managing for Results – a comprehensive approach to create efficiencies in government operations.

As you can see from the detail outlined here, we have made great strides in our efforts to grow our population base as well as our employer and job base. While much remains to be done, we have not only laid the foundation for growth we have begun the rebuilding. The City of Erie's economy is changing and becoming more versatile. As a diverse economy, we can now better weather the fluctuations of a national economy. Our accomplishments and major initiatives for 2004 included:

**Neighborhood Revitalization:**

2004 represented the third consecutive year of record home construction. The City of Erie also saw the first population growth in 34 years. These two important statistics indicate how effectively our Neighborhood Firsts program is working. Through this program we are seeing families move back into the City of Erie, making the city their home again. This positive trend reverses the backward slide the city suffered from for decades. As we rebuild our neighborhoods we grow our tax base and stabilize our future.



**Proactive Economic Development:**

The City of Erie saw job growth in a variety of sectors in 2004. Unemployment has continually decreased since 2002. New businesses such as IFP North America with 300 projected jobs committed to Erie. Existing businesses saw significant growth thanks in part to the City of Erie's revolving loan fund. This program allowed us to help dozens of employers create hundreds of jobs. Overall, thousands of jobs were created in the City of Erie.

**Public Safety:**

Certainly our residential and population growth can be partly attributed to the fine public safety offices we have. Our police department continued its successful reduction in crime. This three year trend of crime reduction and pro-active community policing resulted in Erie being recognized as the safest city in Pennsylvania for the second consecutive year.

The City of Erie Fire Department took significant positive steps to restructure. New management's restructuring resulted in a decrease in personnel costs and better efficiency.

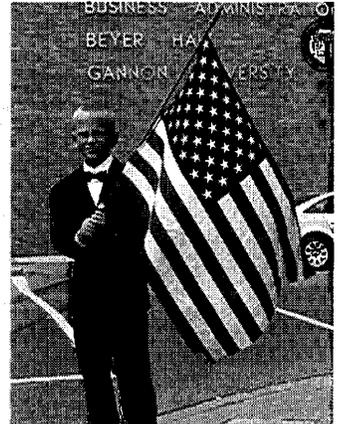


## **Managing for Results:**

Efforts continued to create efficiencies and reduce the overall costs in government. For the third straight year we began the year with a 10% reduction in costs. Specifically, the rising costs of personnel were addressed by reducing personnel by 6.5%, reducing health care costs and implementing tighter controls on various risk management areas. The City of Erie also implemented a more aggressive collection strategy to ensure maximum collectability of all revenues due and we are continuing to update our technology in our finance department to help us manage.

## **Quality of Life Initiatives:**

We continued our focus on improving the quality of life in the City of Erie through comprehensive attention and management of our parks, facilities and programs. Our neighborhood music series now offers 22 free concerts in 9 city parks, all entirely paid for through grants and partnerships. Our annual festival, CelebrateErie, is now nationally recognized, bringing in more than 100,000 visitors to our downtown for three days and creating an economic stimulus of millions. We have continued to upgrade our playgrounds and have expanded our programs to include everything from golf, swimming, dance and theatre. These programs have also expanded from youth to seniors. A downtown Farmer's Market was created spurring even more economic activity.



## **FINANCIAL INFORMATION**

### **Accounting System and Budgetary Control**

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. The reliability of financial records, for preparing financial statements and maintaining accountability for assets, is the primary goal of internal accounting controls. The concept of reasonable assurance requires evaluation and judgment by management in order to determine if the cost of control exceeds the benefits likely to be derived.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

The City's accounting system is organized and operated on a fund basis. Each fund is a distinct self-balancing set of accounts. The various funds utilized by the City are described in Note A of the financial statements.

Budgetary control is obtained at the operating department level through encumbrance accounting. Encumbrance accounting, under which purchase orders are recorded in order to reserve that portion of the current year appropriations, is employed in all funds except Trust Funds. Purchase orders, which would result in an overrun of approved appropriation balances, are not approved until sufficient funds are transferred or until a supplemental appropriation is approved by City Council. Encumbered appropriations at year-end are carried forward as a reserve of fund balance and subsequent actual expenditures are charged against this amount in the ensuing fiscal year.

## General Government Functions

Schedules and analyses of General Fund activity for the year ended December 31, 2004 follow. The General Fund encompasses the general governmental functions of the City (and all other functions not accounted for in other separate funds).

General Fund revenues totaled \$36,443,551 in 2004, a decrease of 4.99% from 2003. Total taxes accounted for 69.00% of general revenues compared to 70.60% last year. The amount of revenues from various sources and a comparison with the prior year are shown in the following tabulation:

Source	Amount	Percent of Total	Increase (Decrease) From 2003	
			Amount	Percent
Taxes	\$25,144,690	69.00%	(\$1,935,808)	(7.15%)
Licenses and Permits	2,047,731	5.62%	229,779	12.64%
Intergovernmental	4,585,631	12.58%	722,160	18.69%
Charges for Services	372,481	1.02%	126,320	51.32%
Fines and Forfeits	1,697,100	4.66%	503	.03%
Interest Earnings	83,507	0.23%	(62,238)	(42.70%)
Payment in Lieu of Taxes	1,017,135	2.79%	583,011	134.30%
Miscellaneous	1,495,276	4.10%	(1,576,849)	(51.33%)
<b>Total</b>	<b>\$36,443,551</b>	<b>100.00%</b>	<b>(\$1,913,122)</b>	<b>(4.99%)</b>

The largest dollar amount increase came from tax-exempt entities making voluntary payments of real estate taxes. Payment in Lieu of Taxes increased \$583,011 which represents a 134.30% increase over 2003.

General Fund expenditures totaled \$47,942,165, a decrease of .76% over 2003. Variances in levels of expenditures for major functions and a comparison with the prior year are shown in the following table:

Function	Amount	Percent of Total	Increase (Decrease) From 2002	
			Amount	Percent
General Government	\$6,303,770	13.15%	\$66,107	1.06%
Public Safety	31,990,034	66.73%	(793,181)	(2.42%)
Highways and Streets	7,478,926	15.60%	233,348	3.22%
Culture and Recreation	2,169,435	4.52%	127,035	6.22%
<b>Total</b>	<b>\$47,942,165</b>	<b>100.00%</b>	<b>(\$366,691)</b>	<b>(.76%)</b>

The ending undesignated fund balance of the General Fund at December 31, 2004 is (\$7,649,679) (deficit) compared with a fund balance of (\$4,228,778) at December 31, 2003.

## **Enterprise Funds**

Enterprise Funds are used to finance and account for the acquisition, operations and maintenance of City facilities and services, which are intended to be entirely or predominately self-supported from user charges. Revenues totaled \$27,263,891 in 2004, while expenses were \$22,671,636. The net income, before operating transfers, for the year amounted to \$4,161,987. The Sewer Revenue Fund showed a net income before operating transfers of \$2,045,137. The Refuse and Recycling Fund showed a net income before operating transfers of \$409,329. The Golf Fund showed a net loss before operating transfers of (\$180,430).

## **Internal Service Funds**

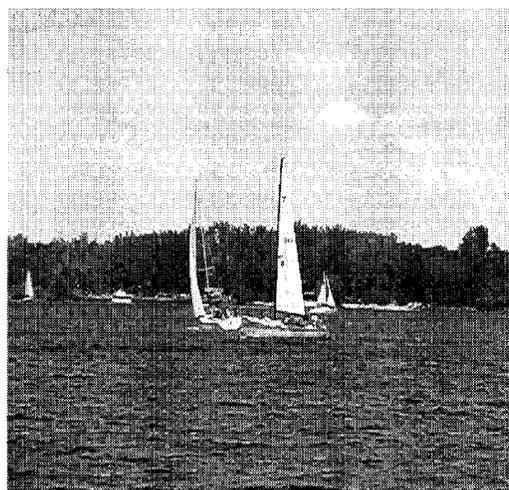
Internal Service Funds account for the financing of self-insurance costs to other funds. Such costs are billed to these funds on a cost reimbursement basis. Operating revenues for the year ended December 31, 2004 were \$11,099,678 and operating expenses totaled \$11,159,904. The net operating loss for 2004, before non-operating revenues (investment income), was (\$60,226). Combined fund balance in these funds changed from a balance of \$1,290,860 at December 31, 2003 to a balance of \$1,367,267 at December 31, 2004.

## **Fiduciary Operations - Pension Plans** (see Note C)

All City employees are covered by one of three pension plans. The plans are all single employer defined benefit pension plans and cover only City employees. In 1984, the Commonwealth of Pennsylvania enacted the Municipal Pension Plan Funding Standard and Recovery Act (Act 205). This act provides a formula for determining the minimum funding required for each pension plan each year, established a supplemental state assistance program in 1988 (funded by a redistribution of premium tax on foreign fire and casualty insurance companies), and further allows municipalities which qualify based upon actuarial and financial criteria, to exceed tax limits to meet the funding requirements of the legislation. The City of Erie has elected to participate in the supplemental pension assistance program; receiving state aid and levying taxes for pension costs mandated by Act 205. Act 205 was amended in 1991, effective for 1992. The amendment increased the mandated City contribution and required reporting of State Aid as General Fund revenue.

## **Deferred Compensation Plan** (see Note C)

The City offers a deferred compensation plan for all employees, permitting them to defer a portion of their salary until future years. The City holds fiduciary responsibility for all assets related to the deferred compensation plan. The City also established a deferred compensation plan for AFSCME, Teamster, non-bargaining and management employees in accordance with Section 401(A) and 457 of the Internal Revenue Code effective October 1, 2000. The same plan was made available to all fire and police employees on January 1, 2002. The plan is a discretionary matching plan whereby employees may elect to contribute a portion of their salary through payroll deductions and the City will match paid contributions by 50%, not to exceed 2% of their pay. The City has no liability for losses under the plan, but has the duty of due care of an ordinary prudent investor.



## **Cash Management** (see Note C)

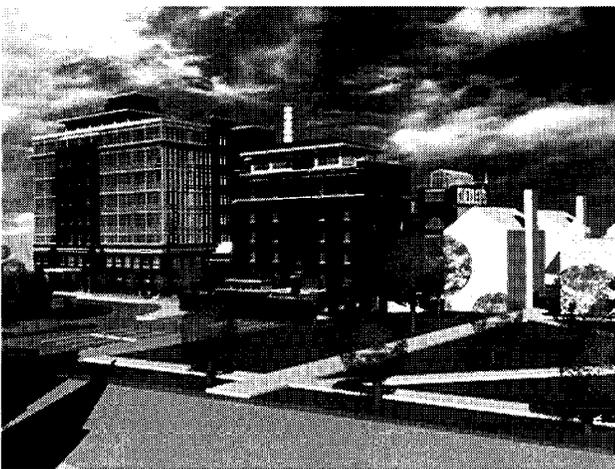
Cash, temporarily idle during the year was invested in fully collateralized certificates of deposit, securities backed by the full faith and credit of the U.S. Government, or bonds backed by the taxing authority of a Pennsylvania municipality, all in accordance with state laws related to investments of idle cash. Minimum balances are retained in interest bearing checking accounts. The City's policy is to minimize credit and market risks while maintaining a competitive yield on investments. Accordingly, policy calls for all deposits to be either in federally insured, or fully collateralized accounts when an investment is in a bank. All investments are held by a financial institution's trust department in the City's name. At December 31, 2002, 100% of investment balances met policy guidelines.

## **Risk Management** (see Note C)

The City accounts for its property and liability insurance programs in the Internal Service Funds. Insurance, administrative and claims costs are charged to expenditures in those funds. The annual costs are billed to the other funds, and are reported as revenues in the Internal Service Funds. Claim liabilities, which include incurred but not reported claims, are based on the estimated ultimate costs of settling the claims and on historical experience. The funds used by the City are Workers Compensation, Employees Health Benefit Plan and Risk Management.

The City maintains a self-insurance program for workers compensation coverage, which is being accounted for as an Internal Service Fund. The fund charges back the costs to various other funds of the City based upon an appropriate risk factor based on the Pennsylvania Workers Compensation "Lost Cost" rates. This risk factor is then applied to the City's actual workers compensation losses and administrative costs in order to develop the actual charge back amount. A third-party claim administrator establishes claim reserves and adjusts claims. The City purchases stop-loss insurance for catastrophic type losses. This insurance limits the City's annual payout to a fixed amount per claim. For 2004, the combined medical and indemnity (wages) stop-loss amount was \$150,000 per claim per year with aggregate retained losses of \$500,000 per occurrence.

The Employees Health Benefit Plan is a modified self-insurance program for insuring hospitalization and medical costs. The program is limited to losses of \$100,000 annually per covered person for all programs combined. For 2004, the City purchased stop-loss insurance coverage of \$1,000,000 per person per year to cover all losses in excess of \$100,000. The Plan is fully funded by City contributions and covers all employees and eligible dependents.



The City is exposed to various risks of losses resulting from theft, damage and destruction of assets, errors and omissions and various other actions. Beginning in 1995, the City began a "protected" self-insurance plan. The City's comprehensive excess liability insurance program allows the City to self-insure small losses and fully insure catastrophic ones. For 2004, all prospective losses are covered by primary liability coverage of \$1,000,000 plus excess liability coverage of \$5,000,000 with retained losses of \$25,000 per occurrence.

## **OTHER INFORMATION**

### **Early Intervention Program**

In May 2005 the City was awarded a grant by the state Department of Community and Economic Development's Early Intervention for Distressed Municipalities Program in the amount of \$100,875 for the preparation of a multi-year financial management plan. In August 2005 an agreement was signed with a Pittsburgh, PA consulting firm to assist in the preparation of such a plan and to perform a financial condition assessment, a financial trend analysis and a management audit of all major departments and operations. The total process is expected to be completed by the end of February 2006. It is our hope that the results of this study will enable the City to achieve and maintain long term fiscal and economic viability.

### **Independent Audit**

State statutes require an annual audit by independent certified public accountants. The City's audit committee selected the firm of McGill, Power, Bell & Associates, LLP. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and the related U.S. Office of Management and Budget's Circular A-128. Generally the auditors in conducting the engagement used accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards. The auditor's report on the basic financial statements is included in the Financial Section of this report. The auditor's report on internal controls and compliance with applicable laws and regulations can be found in a separately issued single audit report.

### **Acknowledgments**

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the staff of the Office of Accounts, Finance and Budget. We also wish to thank our auditors, McGill, Power, Bell & Associates, LLP for their interpretation of and guidance in complying with recent accounting pronouncements.

We would also like to thank City Council and the City's other elected officials for their interest in and support of planning and conducting the financial operations of the City in a fiscally responsible manner.

Respectfully,



Richard E. Filippi  
Mayor

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**CITY OF ERIE, PENNSYLVANIA**

Comprehensive Annual Financial Report  
Year ended December 31, 2004

**PRINCIPAL CITY OFFICIALS**

**MAYOR**

Richard E. Filippi

**CITY COUNCIL**

James N. Thompson, President

Patrick Cappabianca

Jessica Horan-Kunco

James T. Casey

Ian Murray

Ruby Jenkins-Husband

Joseph E. Sinnott

**CITY OFFICIALS**

Susan E. DiVecchio .....City Treasurer

Casimir J. Kwitowski ..... City Controller

Paul Curry ..... City Solicitor

James E. Klemm ..... City Clerk

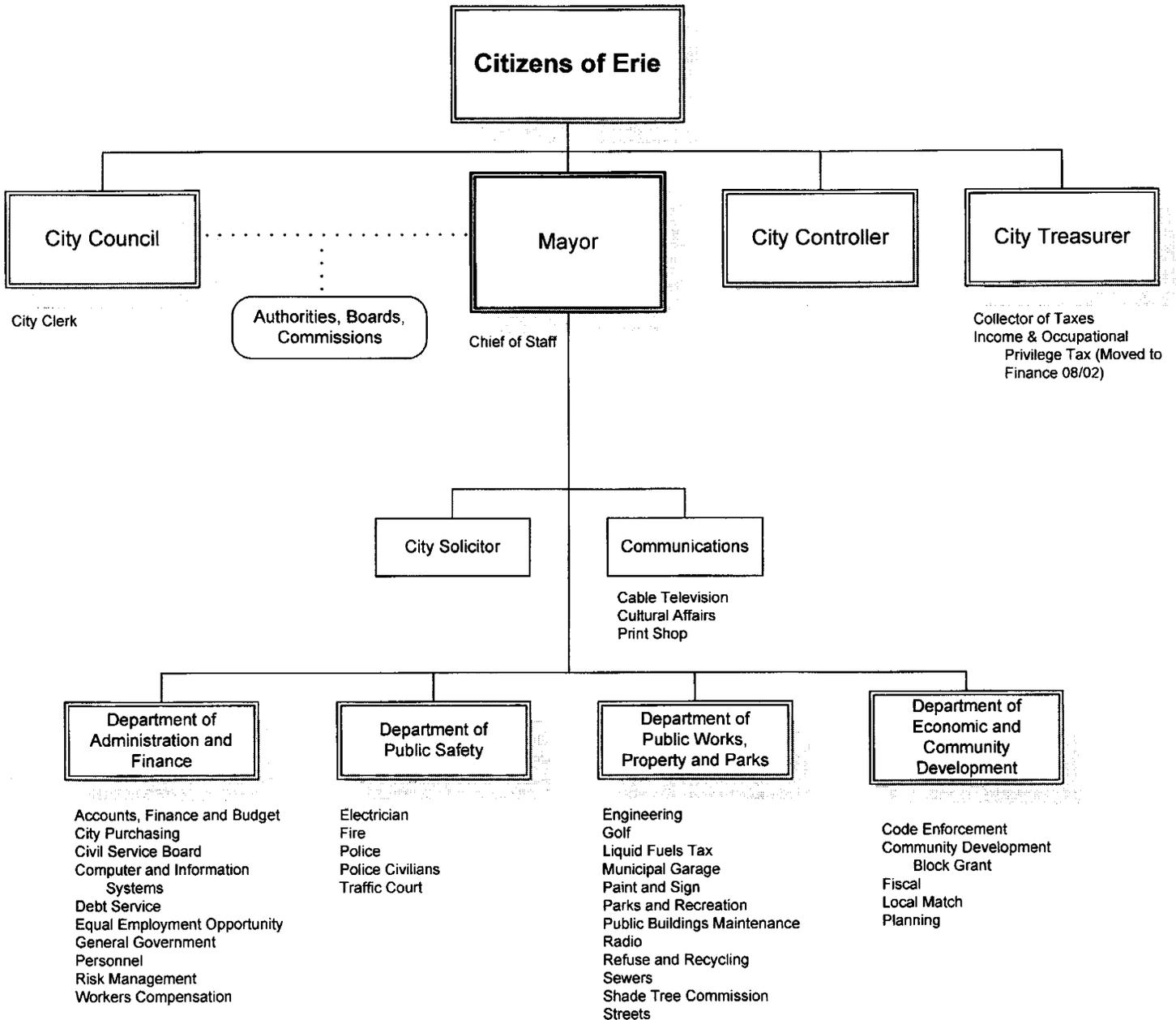
Erby L. Conley .....Director, Department of Public Safety

Gary L. Peterson ..... Director, Department of Administration & Finance

Douglas Mitchell .....Director, Department of Public Works, Property & Parks

Jeffrey E. Spaulding. ....Director, Department of Economic & Community Development

**CITY OF ERIE, PENNSYLVANIA**  
 Comprehensive Annual Financial Report  
 Year Ended December 31, 2004  
 ORGANIZATIONAL CHART



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**FINANCIAL SECTION**



## Independent Auditor's Report

To City Council  
City of Erie  
Erie, PA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Erie, Pennsylvania, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Erie's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the government-wide statements and fiduciary fund statements, is based on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Erie, Pennsylvania, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City of Erie, Pennsylvania will continue as a going concern. As further discussed in note B to the financial statements, the City of Erie's general fund has suffered decreases in net assets and has fund deficits that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The required supplementary information, such as management's discussion and analysis on pages 15 through 24 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Erie's basic financial statements. The accompanying supplementary information, such as the combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*McGill, Power, Bell & Associates, LLP*

**McGill, Power, Bell & Associates, LLP**

Erie, Pennsylvania

August 1, 2005

**CITY OF ERIE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2004**

As management of the City of Erie, Pennsylvania (the "City"), we offer readers of the City's Comprehensive Annual Financial Report ("CAFR") this narrative overview and analysis of the financial activities of the City (the "Primary Government") for the year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's basic financial statements, which immediately follow this section, and the CAFR transmittal letter in the preceding introductory Section.

**FINANCIAL HIGHLIGHTS**

- The liabilities of the City of Erie exceeded its assets at the close of the year ending December 31, 2004 by \$37.7 million (net assets). The City has not implemented capitalization of governmental activities infrastructure costs. In order to meet the funding requirements of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), the City has elected to issue long-term debt to fund pension obligations of its three pension plans. The cost of servicing this debt, \$6,245,000 in calendar year 2004, has reduced the resources available to meet the City's ongoing obligations.
- The assets of its business-type activities exceeded its liabilities at December 31, 2004 by \$19.4 million. Of this amount, \$4.7 million may be used to meet the government's ongoing obligations to customers and creditors.
- The City of Erie's total net assets decreased by \$8.6 million for the year ended December 31, 2004. The decrease is a result of actual revenues in governmental activities being substantially less than anticipated, after transfers, in three of the four business-type activities.
- As of December 31, 2004, the City of Erie's governmental funds reported combined ending fund balances of \$31.7 million, an increase of \$6.4 million. The total General Fund balance declined \$3.4 million for the year ended December 31, 2004 and General Obligation Bond fund increased by \$6.4 million as the City received bond proceeds from Series 2004 A&B for acquisitions and construction of assets but had not completed these projects by the end of the year.
- The City's total long-term debt increased by \$3.7 million or 3.5% during the current year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Erie's basic financial statements. The City of Erie's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Erie's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Erie's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Erie is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, water and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but not used sick leave at termination). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, streets, planning and development, parks and recreation, and general administration. Property and earned income taxes and federal and state grants finance most of these activities.
- **Business type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system, refuse collection and golf courses are reported here. The City also leases its water lines to a separate and distinct Water Authority.

- Component Units – The City includes five separate legal entities in its report – Redevelopment Authority of the City of Erie, Erie Municipal Park Authority, Erie Metropolitan Transit Authority, Erie Parking Authority and Erie Sewer Authority. Although legally separate, these component units are important because the City is financially accountable for them. Financial information for these Component Units is reported separately from the financial information presented for the primary government itself.

## **Reporting the City’s Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City’s two kinds of funds – governmental and proprietary – utilize different accounting approaches.

- *Governmental funds* – The majority of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government’s near term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Erie maintains nine individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, HUD Programs, Other Grants, Liquid Fuels Tax Fund and the Capital Improvements Fund, General Obligation Bond Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data from each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- *Proprietary Funds* – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of the proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The internal service funds (the other component of proprietary funds) are utilized to report risk management activities of the City. Because these services benefit both governmental as well as business type functions, their cost has been included in both the governmental and business type activities in the government-wide financial statements.
- The City of Erie maintains four enterprise funds. The City uses enterprise funds to account for its water line lease, sewer and refuse and golf courses. The funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds all of which are considered to be major funds of the City.

## **The City as Trustee**

### **Reporting the City’s Fiduciary Responsibilities**

The City is trustee, or fiduciary, for the retirement funds of its various employee units as well as the collection of real estate and earned income taxes, and certain amounts held on behalf of others. All of the City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities of these funds are excluded from the City’s government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

### **THE CITY AS A WHOLE – Government-wide Financial Analysis**

The City’s combined net assets were a negative \$18.4 million (excess of total liabilities over total assets) as of December 31, 2004. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net assets are \$19.4 million. The analysis focuses on the net assets (table 1) and changes in net assets (table 2) of the City’s governmental and business-type activities.

The largest portion of the City's total assets (47%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**

City of Erie, Pennsylvania  
Net Assets  
December 31, 2004  
(amounts expressed in thousands)

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 51,886	\$ 46,882	\$ 13,441	\$ 14,705	\$ 65,327	\$ 61,587
Capital assets	24,411	21,958	33,363	32,809	57,774	54,767
Total assets	<u>76,297</u>	<u>68,840</u>	<u>46,804</u>	<u>47,514</u>	<u>123,101</u>	<u>116,354</u>
Current and other liabilities	18,124	18,663	10,902	6,868	29,026	25,531
Long-term liabilities	95,927	91,387	16,540	18,421	112,467	109,808
Total liabilities	<u>114,051</u>	<u>110,050</u>	<u>27,442</u>	<u>25,289</u>	<u>141,493</u>	<u>135,339</u>
Net assets:						
Invested in capital assets, net of related debt	(25,365)	(25,447)	14,660	14,490	(10,705)	(10,957)
Restricted	10,607	23,935	-	-	10,607	23,935
Unrestricted	(22,996)	(39,698)	4,702	7,697	(18,294)	(32,001)
Total net assets	<u>\$ (37,754)</u>	<u>\$ (41,210)</u>	<u>\$ 19,362</u>	<u>\$ 22,187</u>	<u>\$ (18,392)</u>	<u>\$ (19,023)</u>

**Table 2**  
City of Erie, Pennsylvania  
Changes in Net Assets  
For the year Ended December 31, 2004  
(amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for services	\$ 314	\$ 305	\$ 24,120	\$ 21,944	\$ 24,434	\$ 22,249
Operating grants and contributions	26,556	25,643	-	-	26,556	25,643
General revenues:						
Property tax	29,435	28,202	-	-	29,435	28,202
Income tax	7,547	6,761	-	-	7,547	6,761
Other	1,622	3,365	-	-	1,622	3,365
Other general revenues	7,739	8,300	3,733	3,551	11,472	11,851
Total revenues	<u>73,213</u>	<u>72,576</u>	<u>27,853</u>	<u>25,495</u>	<u>101,066</u>	<u>98,071</u>
Expenses						
General government	19,916	19,268	-	-	19,916	19,268
Public safety	32,510	34,593	-	-	32,510	34,593
Highway and streets	8,680	9,426	-	-	8,680	9,426
Sanitation	92	310	-	-	92	310
Culture and recreation	3,762	3,573	-	-	3,762	3,573
Economic & community development	6,364	7,155	-	-	6,364	7,155
Other	1,934	987	-	-	1,934	987
Interest on long-term debt	5,156	7,429	-	-	5,156	7,429
Sewer	-	-	18,225	18,593	18,225	18,593
Water	-	-	562	579	562	579
Refuse	-	-	3,744	3,938	3,744	3,938
Golf	-	-	1,160	1,060	1,160	1,060
Total expenses	<u>78,414</u>	<u>82,741</u>	<u>23,691</u>	<u>24,170</u>	<u>102,105</u>	<u>106,911</u>
Excess (deficiency) of revenues over expenses before capital contributions and transfers	(5,201)	(10,165)	4,162	1,325	(1,039)	(8,840)
Capital contributions	-	-	1,670	390	1,670	390
Transfers	8,657	5,011	(8,657)	(5,011)	-	-
Increase (decrease) in net assets	3,456	(5,154)	(2,825)	(3,296)	631	(8,450)
Net Assets - Beginning of Year	(41,210)	(36,056)	22,187	25,483	(19,023)	(10,573)
Net Assets - End of Year	<u>\$ (37,754)</u>	<u>\$ (41,210)</u>	<u>\$ 19,362</u>	<u>\$ 22,187</u>	<u>\$ (18,392)</u>	<u>\$ (19,023)</u>

*Governmental Activities.* Governmental activities increased the City's net assets by \$3.5 million for the current year, accounting for an 8.4% reduction in negative net assets of the City. This increase was a result of two factors, an additional \$3.6 million transfer from the Business-Type Activities (Sewer Revenue) for the current year, accounting for a 42% increase in transfers, and a reduction in Governmental Activities expenses of \$4.3 million. This combination provided the necessary resources to reduce negative net assets. The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$32.5 million. The major components of public safety are police and fire. Police accounted for \$14.9 million in public safety expense of which \$12.9 million was incurred for salary and benefits. Other significant governmental expenses for the City include the Bureau of Fire at \$14.1 million of which \$12.9 million was incurred for salary and benefits.

*Business-type Activities.* Business-type activities decreased the City net assets by \$2.8 million for the current year, accounting for a 13% reduction in net assets of the City. The key element of this decrease was a \$8.6 million net transfer to the City's General Fund. The City's sewer system recorded charges for services of \$19.5 million and reported a net operating profit of \$2.6 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets.* The City's investment in capital assets as of December 31, 2004, amounted to \$57.8 million (net of accumulated depreciation). This investment, detailed in Table 3, in a broad range of capital assets including police and fire equipment, buildings, streets, water and sewer lines. This amount represents a net increase (including additions and deductions) of \$3 million or a 5.5 percent increase over the prior year.

**Table 3**  
City of Erie, Pennsylvania  
Capital Assets (net of depreciation)  
December 31, 2004  
(amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,034	\$ 548	\$ 730	\$ 730	\$ 1,764	\$ 1,278
Building and improvements	8,996	7,731	4,332	3,074	13,328	10,805
Improvements other than buildings	4,594	2,724	26,476	26,983	31,070	29,707
Equipment and vehicles	7,907	9,350	1,825	1,859	9,732	11,209
Infrastructure	1,880	1,495	-	-	1,880	1,495
Construction in progress	-	110	-	163	-	273
Capital assets, net	<u>\$ 24,411</u>	<u>\$ 21,958</u>	<u>\$ 33,363</u>	<u>\$ 32,809</u>	<u>\$ 57,774</u>	<u>\$ 54,767</u>

Some of the City's major capital asset events in the current year were:

- In the General Obligation Bond Fund, the City installed energy efficient improvements to City buildings for approximately \$1.4 million. \$1.7 million was spent on street and sidewalk improvements.
- The Sewer Fund expended approximately \$3.4 million in sewer system improvements.

Additional information on the City's capital assets can be found in Note C of the basic financial statements.

*Long-term Debt.* At the end of current year, the City's total long-term debt outstanding is \$118 million. This amount was largely comprised of \$115 million in general obligation bonds which are backed by the assets of the City.

**Table 4**  
City of Erie, Pennsylvania  
Outstanding Debt  
December 31, 2004  
(amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
General obligation bonds (backed by the City)	\$ 96,439	\$ 90,087	\$ 18,704	\$ 18,329	\$ 115,143	\$ 108,416
Other loans	2,700	669	-	-	2,700	669
Capital leases	306	455	-	-	306	455
Total	<u>\$ 99,445</u>	<u>\$ 91,211</u>	<u>\$ 18,704</u>	<u>\$ 18,329</u>	<u>\$ 118,149</u>	<u>\$ 109,540</u>

The City's total long-term debt increased by \$8.6 million or 7.8% during the current year.

*Bond Ratings.* The City's debt ratings is A- by Standard & Poor's and Baa3 by Moody's. Insurance has been purchased to guarantee repayment of certain of the City's indentures.

Additional information on the City's long-term debt can be found in Note C of the basic financial statements.

## **THE CITY'S FUNDS**

At the close of the City's year on December 31, 2004, the governmental funds of the City reported a combined fund balance of \$31.7 million. This ending balance includes a reduction in fund balance of \$3 million in the City's General Fund. The primary reason for the General Fund's reduction is due to certain anticipated revenues, such as fees, reimbursements and investment income, that did not materialize. In addition, these other changes to fund balances should be noted:

- The City's Debt Service fund balance of \$2,224,002 increased by \$1,677,899 from prior year fund balance.
- The City spent \$5,973,793 in capital outlay in the Capital Improvements and General Obligation Bond funds.
- The City's Capital Improvements and General Obligation Bond funds increased by \$207,844 and 6,436,939, respectively, during the latest year thereby increasing ending fund balance to Capital Improvements and General Obligation Bond funds to \$15,225,094 and \$8,129,402, respectively.

### **General Fund Budgetary Highlights**

During 2004, there were no significant budget amendments for the General Fund.

For 2004, actual expenditures on a budgetary basis were \$47.9 million compared to the budget amount of \$49.5 million. The \$1.6 million positive variance was due to a concerted effort to reduce expenses as a means to offset the reduction in anticipated revenue short falls.

For 2004, actual revenues on a budgetary basis were \$36.4 million as compared to the budget amount of \$45.5 million. The majority of the \$9.1 million negative variance was due to a decline in overall tax collections, interest earnings and anticipated sources of revenues from various sources that were not realized by the City.

The City of Erie has, on a budgetary basis, an actual General Fund deficit balance of \$7.6 million as of the year end, compared to the budgeted balance of zero. The variance in fund balance is primarily due to the budget of revenues that did not materialize to fund the typical level of general fund expenditures.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$56.7 million. This represents an increase of \$182,000 over the 2004 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for 2005 is 9.71 mills (.00971 per \$1,000 valuation). Of this tax rate 65 percent or 6.30 mills is utilized for General Fund activities. The remaining 35 percent or 3.41 mills is used for debt service. The General Fund's portion of property tax revenue for 2005 is estimated to be \$13.8 million, a decrease of \$1.5 million from 2004.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administration and Finance, at the City of Erie, 626 State Street – Room 309, Erie , Pennsylvania 16501.

## General Purpose Financial Statements

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**December 31, 2004**

	<i>Primary Government</i>			<i>Discretely Presented Component Units</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 12,355,547	\$4,245,829	\$16,601,376	\$ 2,457,819
Investments	13,560,417	-	13,560,417	2,794,848
Receivables (net of allowance for uncollectibles)	10,956,871	4,397,750	15,354,621	2,281,881
Internal Balances	136,112	(136,112)	-	-
Inventories	-	-	-	184,459
Prepaid	-	4,675,600	4,675,600	409,975
Restricted Assets:				
Cash and Cash Equivalents	591,123	-	591,123	15,939,878
Investments	3,450,006	-	3,450,006	12,555,245
Other	-	-	-	26,636
Capital Assets:				
Non-depreciable	1,034,184	730,999	1,765,183	2,285,377
Depreciable (Net)	23,377,275	32,632,016	56,009,291	120,505,882
Notes Receivable, net of current obligation	10,607,249	-	10,607,249	-
Bond Issue Costs (Net)	228,093	258,645	486,738	878,060
Net Pension Benefit Asset	-	-	-	368,038
Total Assets	<u>\$ 76,296,877</u>	<u>\$ 46,804,727</u>	<u>\$ 123,101,604</u>	<u>\$ 160,688,098</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,829,608	\$ 510,832	\$ 2,340,440	\$ 1,179,936
Accrued Liabilities	535,117	142,228	677,345	1,125,763
Accrued Interest Payable	8,356,636	2,335,264	10,691,900	472,310
Deferred Revenue	6,705,626	7,912,995	14,618,621	404,185
Due to Other Governments	696,209	1,152	697,361	-
Non current Liabilities				
Due Within One Year				
Compensated Absences	563,400	59,882	623,282	-
Bonds, Loans and Leases Payable	9,379,729	9,455	9,389,184	3,577,832
Due In More Than One Year				
Compensated Absences	1,318,410	110,735	1,429,145	-
Bonds, Loans and Leases Payable	82,521,646	16,359,384	98,881,030	86,156,891
Claims Liabilities	2,144,892	-	2,144,892	-
Advances from Other Governments	-	-	-	-
Total Liabilities	<u>114,051,273</u>	<u>27,441,927</u>	<u>141,493,200</u>	<u>92,916,917</u>
<b>NET ASSETS</b>				
Invested in Capital Assets (net of related debt)	(25,365,377)	14,658,911	(10,706,466)	33,471,302
Restricted for:				
Noncurrent Notes Receivable	10,607,249	-	10,607,249	-
Other	-	-	-	29,342,153
Unrestricted	(22,996,268)	4,703,889	(18,292,379)	4,957,726
Total Net Assets	<u>(37,754,396)</u>	<u>19,362,800</u>	<u>(18,391,596)</u>	<u>67,771,181</u>
Total Liabilities and Net Assets	<u>\$ 76,296,877</u>	<u>\$ 46,804,727</u>	<u>\$ 123,101,604</u>	<u>\$ 160,688,098</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**December 31, 2004**

Fund Balances – total governmental funds \$ 31,680,025

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$42,277,329 and the accumulated depreciation is \$17,865,870. 24,411,459

Property and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 6,239,566

Long-term liabilities, including bonds payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds, notes and loan payable	(91,901,375)
Accrued interest on the bonds	(8,331,805)
Compensated Absences	(1,318,410)

Deferred Charges for debt issuance costs 228,093

Liabilities for accrued obligations (129,216)

Internal Service Funds are used by management to charge costs of certain activities to individual funds.

The assets and liabilities of the Internal Service Funds are reported with the governmental activities. 1,367,267

Net assets of governmental activities \$ (37,754,396)

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**For the year ended December 31, 2004**

<b>Functions/Programs</b>	<i>Expenses</i>	<i>Program Revenues</i>		
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
<b>Governmental activities:</b>				
General government	\$ 19,916,348	\$ 313,966	\$ 26,555,525	\$ 0
Public safety	32,509,784	-	-	-
Highways and streets	8,680,194	-	-	-
Sanitation	91,648	-	-	-
Culture and Recreation	3,761,657	-	-	-
Economic and community development	6,363,679	-	-	-
Other	1,933,793	-	-	-
Interest on long-term debt	5,156,791	-	-	-
<b>Total Governmental Activities</b>	<b>78,413,894</b>	<b>313,966</b>	<b>26,555,525</b>	<b>0</b>
<b>Business-type activities:</b>				
Sewer	18,224,818	19,477,113	-	-
Water	561,718	-	-	-
Refuse	3,743,855	3,971,127	-	-
Golf	1,160,414	671,781	1,670,268	-
<b>Total Business-type Activities</b>	<b>23,690,805</b>	<b>24,120,021</b>	<b>1,670,268</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 102,104,699</b>	<b>\$ 24,433,987</b>	<b>\$ 28,225,793</b>	<b>\$ 0</b>
Discretely presented component units	\$ 28,216,092	\$ 14,633,880	\$ 9,551,570	\$ 3,306,515

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities (Continued)**  
**For the year ended December 31, 2004**

<b>Functions/Programs</b>	<i>Net (Expense) Revenue and Changes In Net Assets</i>			<i>Discretely presented Component Units</i>
	<i>Primary Government</i>			
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
Governmental activities:				
General government	\$ 6,953,143	\$ 0	\$ 6,953,143	\$ 0
Public safety	(32,509,784)	-	(32,509,784)	-
Highways and streets	(8,680,194)	-	(8,680,194)	-
Sanitation	(91,648)	-	(91,648)	-
Culture and Recreation	(3,761,657)	-	(3,761,657)	-
Economic and community development	(6,363,679)	-	(6,363,679)	-
Other	(1,933,793)	-	(1,933,793)	-
Interest on long-term debt	(5,156,791)	-	(5,156,791)	-
Total Governmental Activities	<u>(51,544,403)</u>	<u>0</u>	<u>(51,544,403)</u>	<u>0</u>
Business-type activities:				
Sewer	-	1,252,295	1,252,295	-
Water	-	(561,718)	(561,718)	-
Refuse	-	227,272	227,272	-
Golf	-	1,181,635	1,181,635	-
Total Business-type Activities	<u>-</u>	<u>2,099,484</u>	<u>2,099,484</u>	<u>-</u>
Total Primary Government	<u>\$ (51,544,403)</u>	<u>\$ 2,099,484</u>	<u>\$ (49,444,919)</u>	<u>\$ 0</u>
Discretely presented component units				<u>\$ (724,127)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes	\$ 29,435,241	\$ 0	\$ 29,435,241	\$ 0
Income Taxes	7,546,687	-	7,546,687	-
Other	1,622,172	-	1,622,172	-
Licenses and Permits	2,119,000	-	2,119,000	-
Fines and Forfeits	1,697,100	-	1,697,100	-
Interest Earnings	1,214,892	107,784	1,322,676	808,979
Lease Rental	-	2,427,583	2,427,583	-
Miscellaneous	2,708,060	1,197,404	3,905,464	37,068
Transfers	8,656,889	(8,656,889)	-	-
<b>Total General Revenues and Transfers</b>	<u>55,000,041</u>	<u>(4,924,118)</u>	<u>50,075,923</u>	<u>846,047</u>
Changes in net assets	3,455,638	(2,824,634)	631,004	121,920
Net assets - Beginning of Year	<u>(41,210,034)</u>	<u>22,187,434</u>	<u>(19,022,600)</u>	<u>67,649,261</u>
Net assets - End of Year	<u>\$ (37,754,396)</u>	<u>\$ 19,362,800</u>	<u>\$ (18,391,596)</u>	<u>\$ 67,771,181</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**

**Balance Sheet**

**Governmental Funds**

**December 31, 2004**

	<u>General Fund</u>	<u>Debt Service</u>	<u>HUD Programs</u>	<u>Other Grants</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 394,800	\$ 17,036	\$ 5,653	\$ 1,066,637
Investments	-	-	-	-
Restricted Cash and Cash Equivalents	-	-	-	-
Restricted Investments	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	-	-	-
Property Tax	3,922,906	-	-	-
Earned Income and Occupational Privilege Tax	1,025,000	-	-	-
Liens	91,042	-	276,189	-
Intergovernmental	226,972	-	384,080	386,813
Interfund	2,792,715	8,336,204	-	-
Notes	-	-	4,652	413,428
Other	381,395	575,000	-	-
Inventory	-	-	-	-
Notes Receivable, net of current obligation	-	-	5,221,000	4,269,484
Total Assets	<u>\$ 8,834,830</u>	<u>\$ 8,928,240</u>	<u>\$ 5,891,574</u>	<u>\$ 6,136,362</u>
<b>LIABILITIES</b>				
Accounts Payable	\$592,841	\$2,423	\$384,084	\$12,270
Accrued Payroll	502,293	-	315	1,871
Interfund Payable	10,057,635	2,001,384	-	-
Compensated Absences Payable	563,400	-	-	-
Deferred Revenue	4,766,229	4,675,600	276,189	802,376
Other Liabilities	2,111	-	-	-
Accrued Interest Payable	-	24,831	-	-
Total Liabilities	<u>16,484,509</u>	<u>6,704,238</u>	<u>660,588</u>	<u>816,517</u>
<b>FUND BALANCES</b>				
Reserved:				
Encumbrances	-	-	-	-
Noncurrent Notes Receivable	-	-	5,221,000	4,269,484
Equity in Authority Rentals	-	-	-	-
Land Held for Resale	-	-	-	-
Employees' Pension Benefits	-	-	-	-
Unreserved:				
Designated for Endowment Principal	-	-	-	-
Undesignated (Deficit)	(7,649,679)	2,224,002	9,986	1,050,361
Total Fund Balances	<u>(7,649,679)</u>	<u>2,224,002</u>	<u>5,230,986</u>	<u>5,319,845</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 8,834,830</u>	<u>\$ 8,928,240</u>	<u>\$ 5,891,574</u>	<u>\$ 6,136,362</u>

**CITY OF ERIE, PENNSYLVANIA**

**Balance Sheet (Continued)**

**Governmental Funds**

**December 31, 2004**

	<i>Liquid Fuels Tax Fund</i>	<i>Capital Improvements Fund</i>	<i>General Obligation Bond Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,307,791	\$ 357,681	\$ 8,507,408	\$ 698,541	\$ 12,355,547
Investments	-	13,560,417	-	-	13,560,417
Restricted Cash and Cash Equivalents	-	-	-	-	-
Restricted Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	-	-	-	-	-
Property Tax	-	-	-	-	3,922,906
Earned Income and Occupational Privilege Tax	-	-	-	-	1,025,000
Liens	-	-	-	61,520	428,751
Intergovernmental	-	-	-	-	997,865
Interfund	23,431	1,535,913	-	-	12,688,263
Notes	-	-	-	194,797	612,877
Other	-	-	-	-	956,395
Inventory	-	-	-	-	-
Notes Receivable, net of current obligation	-	-	-	1,116,765	10,607,249
Total Assets	<u>\$ 1,331,222</u>	<u>\$ 15,454,011</u>	<u>\$ 8,507,408</u>	<u>\$ 2,071,623</u>	<u>\$ 57,155,270</u>
<b>LIABILITIES</b>					
Accounts Payable	\$140,950	\$16,817	\$329,744	\$0	\$1,479,129
Accrued Payroll	-	-	-	-	504,479
Interfund Payable	-	212,100	48,262	-	12,319,381
Compensated Absences Payable	-	-	-	-	563,400
Deferred Revenue	-	-	-	61,520	10,581,914
Other Liabilities	-	-	-	-	2,111
Accrued Interest Payable	-	-	-	-	24,831
Total Liabilities	<u>140,950</u>	<u>228,917</u>	<u>378,006</u>	<u>61,520</u>	<u>\$25,475,245</u>
<b>FUND BALANCES</b>					
Reserved:					
Encumbrances	-	-	-	-	-
Noncurrent Notes Receivable	-	-	-	1,116,765	10,607,249
Equity in Authority Rentals	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Employees' Pension Benefits	-	-	-	-	-
Unreserved:					
Designated for Endowment Principal	-	12,750,000	-	-	12,750,000
Undesignated (Deficit)	1,190,272	2,475,094	8,129,402	893,338	8,322,776
Total Fund Balances	<u>1,190,272</u>	<u>15,225,094</u>	<u>8,129,402</u>	<u>2,010,103</u>	<u>31,680,025</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 1,331,222</u>	<u>\$ 15,454,011</u>	<u>\$ 8,507,408</u>	<u>\$ 2,071,623</u>	<u>\$ 57,155,270</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended December 31, 2004**

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
<b>REVENUES</b>				
Taxes	\$ 25,144,690	\$ 9,784,819	\$ 0	\$ 0
Licenses and Permits	2,047,731	-	-	-
Intergovernmental	4,585,631	449,561	6,197,906	3,336,240
Charges for Services	372,481	-	-	-
Fines and Forfeits	1,697,100	-	-	-
Interest Earnings	83,507	29,694	82,600	122,997
Payment in Lieu of Taxes	1,017,135	-	-	-
Miscellaneous	1,495,276	2,200	48,095	111
Total Revenues	<u>36,443,551</u>	<u>10,266,274</u>	<u>6,328,601</u>	<u>3,459,348</u>
<b>EXPENDITURES</b>				
Current:				
General Government	6,303,770	15,117	-	-
Public Safety	31,990,034	-	-	489,948
Highways and Streets	7,478,926	-	-	-
Sanitation	-	-	3,148	88,500
Culture and Recreation	2,169,435	-	289,188	2,206,219
Economic and Community Development	-	-	5,973,530	617,278
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	4,946,531	-	-
Interest	-	3,643,376	-	-
Bond Issuance Costs	-	-	-	-
Total Expenditures	<u>47,942,165</u>	<u>8,605,024</u>	<u>6,265,866</u>	<u>3,401,945</u>
Deficiency of Revenues Over Expenditures	<u>(11,498,614)</u>	<u>1,661,250</u>	<u>62,735</u>	<u>57,403</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	8,582,748	66,649	-	29,750
Operating Transfers (Out)	(96,399)	(50,000)	-	126,762
Proceeds from General Long-Term Debt	-	-	-	-
Total Other Financing Sources And (Uses)	<u>8,486,349</u>	<u>16,649</u>	<u>-</u>	<u>156,512</u>
Net Change in Fund Balance	<u>(3,012,265)</u>	<u>1,677,899</u>	<u>62,735</u>	<u>213,915</u>
Fund Balance, January 1, 2004	(4,228,778)	546,103	4,077,896	5,105,930
Prior Period Adjustments	(408,636)	-	1,090,355	-
Fund Balance (Deficit), December 31, 2004	<u>\$ (7,649,679)</u>	<u>\$ 2,224,002</u>	<u>\$ 5,230,986</u>	<u>\$ 5,319,845</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the year ended December 31, 2004**

	<i>Liquid Fuels Tax Fund</i>	<i>Capital Improvements Fund</i>	<i>General Obligation Bond Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>REVENUES</b>					
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,929,509
Licenses and Permits	-	-	-	-	2,047,731
Intergovernmental	1,803,249	-	60,000	55,297	16,487,884
Charges for Services	-	-	-	-	372,481
Fines and Forfeits	-	-	-	-	1,697,100
Interest Earnings	22,204	641,806	66,148	29,303	1,078,259
Payment in Lieu of Taxes	-	-	-	-	1,017,135
Miscellaneous	5,615	70,875	-	-	1,622,172
Total Revenues	<u>1,831,068</u>	<u>712,681</u>	<u>126,148</u>	<u>84,600</u>	<u>59,252,271</u>
<b>EXPENDITURES</b>					
Current:					
General Government	-	92,793	-	-	6,411,680
Public Safety	-	-	-	-	32,479,982
Highways and Streets	1,582,479	-	-	-	9,061,405
Sanitation	-	-	-	-	91,648
Culture and Recreation	-	-	-	-	4,664,842
Economic and Community Development	-	-	-	-	6,590,808
Capital Outlay	-	412,044	5,561,749	54,246	6,028,039
Debt Service:					
Principal	-	-	-	-	4,946,531
Interest	-	-	-	-	3,643,376
Bond Issuance Costs	-	-	248,145	-	248,145
Total Expenditures	<u>1,582,479</u>	<u>504,837</u>	<u>5,809,894</u>	<u>54,246</u>	<u>74,166,456</u>
Excess (Deficiency) of Revenues Over	<u>248,589</u>	<u>207,844</u>	<u>(5,683,746)</u>	<u>30,354</u>	<u>(14,914,185)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating Transfers In	-	-	124,141	-	8,803,288
Operating Transfers (Out)	-	-	-	(126,762)	(146,399)
Proceeds from General Long-Term Debt	-	-	11,996,544	-	11,996,544
Total Other Financing Sources And (Uses)	<u>-</u>	<u>-</u>	<u>12,120,685</u>	<u>(126,762)</u>	<u>20,653,433</u>
Net Change in Fund Balance	248,589	207,844	6,436,939	(96,408)	5,739,248
Fund Balance (Deficit), January 1, 2004	941,683	15,017,250	1,692,463	2,106,511	25,259,058
Prior Period Adjustments	-	-	-	-	681,719
Fund Balance (Deficit), December 31, 2004	<u>\$ 1,190,272</u>	<u>\$ 15,225,094</u>	<u>\$ 8,129,402</u>	<u>\$ 2,010,103</u>	<u>\$ 31,680,025</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental**  
**Funds to the Statement of Activities**  
**For the year ended December 31, 2004**

Net change in fund balances – total governmental funds	\$ 5,739,248
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the amount by which capital outlays exceeded depreciation in the current period.	5,040,585
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(7,050,013)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,508,650)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,158,061
The revenue and expenses of the internal service fund is reported with the governmental activities.	<u>76,407</u>
Change in net assets of governmental activities	<u><u>\$ 3,455,638</u></u>

**CITY OF ERIE, PENNSYLVANIA**  
**General Government**  
**Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual**  
**For the year ended December 31, 2004**

	<i>Original</i>	<i>Final</i>	<i>Actual Amounts</i>	<i>Variance with Final Budget - Positive/ (Negative)</i>
<b>REVENUES</b>				
Taxes	\$ 27,731,210 *	\$ 27,731,210 *	\$ 25,144,690	\$ (2,586,520)
Licenses and Permits	1,953,500	1,953,500	2,047,731	94,231
Intergovernmental	5,799,518	5,799,518	4,585,631	(1,213,887)
Charges for Services	382,400	382,400	372,481	(9,919)
Fines and Forfeits	1,705,213	1,705,213	1,697,100	(8,113)
Interest Earnings	620,000	620,000	83,507	(536,493)
Payment in Lieu of Taxes	1,045,000	1,045,000	1,017,135	(27,865)
Miscellaneous	6,248,382	6,248,382	1,495,276	(4,753,106)
Total Revenues	<u>45,485,223</u>	<u>45,485,223</u>	<u>36,443,551</u>	<u>(9,041,672)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	8,393,201 *	8,393,201 *	6,303,770	2,089,431
Public Safety	31,074,586	31,074,586	31,990,034	(915,448)
Highways and Streets	7,587,652	7,587,652	7,478,926	108,726
Culture and Recreation	2,506,965	2,506,965	2,169,435	337,530
Total Expenditures	<u>49,562,404</u>	<u>49,562,404</u>	<u>47,942,165</u>	<u>1,620,239</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,077,181)</u>	<u>(4,077,181)</u>	<u>(11,498,614)</u>	<u>(7,421,433)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,021,931	4,021,931	8,582,748	4,560,817
Operating Transfers (Out)	-	-	(96,399)	(96,399)
Total Other Financing Sources And (Uses)	<u>4,021,931</u>	<u>4,021,931</u>	<u>8,486,349</u>	<u>4,464,418</u>
Excess (Deficiency) of Revenues Over Expenditures	(55,250)	(55,250)	(3,012,265)	(2,957,015)
Fund Balance (Deficit), January 1, 2004, as restated	-	-	(4,228,778)	(4,228,778)
Prior Period Adjustment	-	-	(408,636)	(408,636)
Fund Balance (Deficit), December 31, 2004	<u>\$ (55,250)</u>	<u>\$ (55,250)</u>	<u>\$ (7,649,679)</u>	<u>\$ (7,594,429)</u>

\* Reduced by \$7,084,059 for property taxes levied specifically for debt service

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**CITY OF ERIE, PENNSYLVANIA**

**Statement of Net Assets**

**Proprietary Funds**

**December 31, 2004**

	<u>Sewer Revenue</u>	<u>Water Revenue</u>	<u>Refuse and Recycling</u>	<u>Golf</u>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 2,422,410	\$ 0	\$ 749,288	\$ 3,116
Restricted Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Restricted Investments	-	-	-	-
Receivables (Net of Allowance for Uncollectibles):				
Accounts	1,762,226	-	659,836	-
Intergovernmental	1,887,116	-	-	-
Interfund	-	-	-	-
Other	84,372	-	-	4,200
Prepaid items	4,675,600	-	-	-
Total Current Assets	<u>10,831,724</u>	<u>0</u>	<u>1,409,124</u>	<u>7,316</u>
Non-Current Assets:				
Capital Assets:				
Land	-	592,369	-	138,630
Buildings and Improvements	1,216,546	7,923,777	-	2,156,584
Improvements Other than Building	19,585,992	35,211,685	-	723,109
Equipment and Vehicles	5,480,080	5,063,140	1,223,687	657,991
Less Accumulated Depreciation	(11,754,262)	(32,657,828)	(797,698)	(1,400,787)
Unamortized Bond Costs	258,645	-	-	-
Total Noncurrent Assets	<u>14,787,001</u>	<u>16,133,143</u>	<u>425,989</u>	<u>2,275,527</u>
Total Assets	<u>\$25,618,725</u>	<u>\$16,133,143</u>	<u>\$1,835,113</u>	<u>\$2,282,843</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 428,759	\$ 0	\$ 66,136	\$ 15,937
Accrued Payroll	100,368	-	37,438	4,422
Interfund Payable	126,735	-	29,422	279,954
Accrued Interest Payable	2,335,264	-	-	-
Compensated Absences Payable	44,047	-	12,175	3,660
Current Portion of Bonds Payable	9,455	-	-	-
Due to Other Governments	-	-	-	1,152
Total Current Liabilities	<u>3,044,628</u>	<u>0</u>	<u>145,171</u>	<u>305,125</u>
Noncurrent Liabilities:				
Compensated Absences Payable	85,377	-	20,754	4,604
Claims and Judgments Payable	-	-	-	-
Deferred Revenue	481,217	7,431,778	-	-
General Obligation Bonds Payable	16,359,385	-	-	-
Total Noncurrent Liabilities	<u>16,925,979</u>	<u>7,431,778</u>	<u>20,754</u>	<u>4,604</u>
Total Liabilities	<u>19,970,607</u>	<u>7,431,778</u>	<u>165,925</u>	<u>309,729</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	(4,175,748)	16,133,143	425,989	2,275,527
Unrestricted	<u>9,823,866</u>	<u>(7,431,778)</u>	<u>1,243,199</u>	<u>(302,413)</u>
Total Net Assets	<u>5,648,118</u>	<u>8,701,365</u>	<u>1,669,188</u>	<u>1,973,114</u>
Total Liabilities and Net Assets	<u>\$ 25,618,725</u>	<u>\$ 16,133,143</u>	<u>\$ 1,835,113</u>	<u>\$ 2,282,843</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets (Continued)**  
**Proprietary Funds**  
**December 31, 2004**

	<i>Sewer Reserve</i>	<i>Totals</i>	<i>Governmental Activities - Internal Service</i>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,071,015	\$ 4,245,829	\$ 0
Restricted Cash and Cash Equivalents	-	-	591,123
Investments	-	-	-
Restricted Investments	-	-	3,450,006
Receivables (Net of Allowance for Uncollectibles):			
Accounts	-	2,422,062	-
Intergovernmental	-	1,887,116	-
Interfund	300,000	300,000	-
Other	-	88,572	9,827
Prepaid items	-	4,675,600	-
Total Current Assets	<u>1,371,015</u>	<u>13,619,179</u>	<u>4,050,956</u>
Non-Current Assets:			
Capital Assets:			
Land	-	730,999	-
Buildings and Improvements	-	11,296,907	-
Improvements Other than Building	-	55,520,786	-
Equipment and Vehicles	-	12,424,898	-
Less Accumulated Depreciation	-	(46,610,575)	-
Unamortized Bond Costs	-	258,645	-
Total Noncurrent Assets	<u>-</u>	<u>33,621,660</u>	<u>-</u>
Total Assets	<u>\$1,371,015</u>	<u>\$47,240,839</u>	<u>\$4,050,956</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 0	\$ 510,832	\$ 219,152
Accrued Payroll	-	142,228	30,638
Interfund Payable	-	436,111	289,007
Accrued Interest Payable	-	2,335,264	-
Compensated Absences Payable	-	59,882	-
Current Portion of Bonds Payable	-	9,455	-
Due to Other Governments	-	1,152	-
Total Current Liabilities	<u>0</u>	<u>3,494,924</u>	<u>538,797</u>
Noncurrent Liabilities:			
Compensated Absences Payable	-	110,735	-
Claims and Judgments Payable	-	-	2,144,892
Deferred Revenue	-	7,912,995	-
General Obligation Bonds Payable	-	16,359,385	-
Total Noncurrent Liabilities	<u>-</u>	<u>24,383,115</u>	<u>2,144,892</u>
Total Liabilities	<u>0</u>	<u>27,878,039</u>	<u>2,683,689</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	-	14,658,911	-
Unrestricted	<u>1,371,015</u>	<u>4,703,889</u>	<u>1,367,267</u>
Total Net Assets	<u>1,371,015</u>	<u>19,362,800</u>	<u>1,367,267</u>
Total Liabilities and Net Assets	<u>\$ 1,371,015</u>	<u>\$ 47,240,839</u>	<u>\$ 4,050,956</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the year ended December 31, 2004**

	Sewer Revenue	Water Revenue	Refuse and Recycling	Golf	Sewer Reserve	Totals	Internal Service
<b>OPERATING REVENUES</b>							
Intergovernmental Revenue	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,046,150
Charges for Services	19,477,113	-	3,971,127	671,781	-	24,120,021	-
Lease Rental	-	2,427,583	-	-	-	2,427,583	-
Rental Income	-	-	-	153,114	-	153,114	-
Miscellaneous	374,667	-	62,365	126,141	-	563,173	2,053,528
Total Operating Revenues	19,851,780	2,427,583	4,033,492	951,036	0	27,263,891	11,099,678
<b>OPERATING EXPENSES</b>							
Personnel Services	3,796,786	-	1,308,672	478,871	-	5,584,329	-
Other Personnel Services	1,733,615	-	557,907	207,579	-	2,499,101	-
Services and Fees	2,083,143	-	1,569,306	35,956	-	3,688,405	168,570
Utilities	1,597,686	-	6,952	41,775	-	1,646,413	-
Rent	3,628	-	111	81,111	-	84,850	-
Insurance	674,734	-	18,915	8,448	-	702,097	10,196,836
Materials, Supplies, and Maintenance	855,450	-	178,932	135,291	-	1,169,673	290
Workers Compensation Claims and Other Claims	-	-	-	-	-	-	794,208
Depreciation and Amortization	1,225,060	561,718	97,144	122,966	-	2,006,888	-
Other Expenses	5,235,547	-	5,916	48,417	-	5,289,880	-
Total Operating Expenses	17,205,649	561,718	3,743,855	1,160,414	-	22,671,636	11,159,904
Operating Income (Loss)	2,646,131	1,865,865	289,637	(209,378)	0	4,592,255	(60,226)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Intergovernmental Revenue	346,100	-	106,492	28,525	-	481,117	-
Investment Earnings	72,075	-	13,200	423	22,086	107,784	136,633
Interest Expense	(1,019,169)	-	-	-	-	(1,019,169)	-
Total Nonoperating Revenue (Expenses)	(600,994)	-	119,692	28,948	22,086	(430,268)	136,633
Total Income (Loss) Before Contributions and Transfers	2,045,137	1,865,865	409,329	(180,430)	22,086	4,161,987	76,407
Contributions	-	-	-	1,670,268	-	1,670,268	-
Transfers In	5,000,000	-	-	-	-	5,000,000	-
Transfers (Out)	(4,500,000)	(3,932,748)	(100,000)	(124,141)	(5,000,000)	(13,656,889)	-
Change in Net Assets	2,545,137	(2,066,883)	309,329	1,365,697	(4,977,914)	(2,824,634)	76,407
Net Assets, January 1, 2004	3,102,981	10,768,248	1,359,859	645,294	6,348,929	22,225,311	1,290,860
Prior Period Adjustments	-	-	-	(37,877)	-	(37,877)	-
Fund Equity (Deficit), December 31, 2004	\$ 5,648,118	\$ 8,701,365	\$ 1,669,188	\$ 1,973,114	\$ 1,371,015	\$ 19,362,800	\$ 1,367,267

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended December 31, 2004**

	<i>Sewer Revenue</i>	<i>Water Revenue</i>	<i>Refuse and Recycling</i>	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Totals</i>	<i>Internal Service</i>
<b>Cash Flows From Operating Activities</b>							
Receipts from Customers and Users	\$ 19,576,457	\$ 3,932,748	\$ 3,927,477	\$ 633,904	\$ 0	\$ 28,070,586	\$ 0
Receipts from Interfund Services Provided	-	-	-	-	-	-	9,046,150
Receipts from Other Operating Activities	-	-	-	275,055	-	275,055	2,833,108
Cash Received from/ (Paid to) Other Funds	(3,500,000)	-	27,515	159,900	3,500,000	187,415	-
Payments to Suppliers	(4,423,845)	-	(1,792,442)	(168,658)	-	(6,384,945)	(10,463,547)
Payments to Employees	(5,572,879)	-	(1,878,909)	(692,374)	-	(8,144,162)	(1,789,136)
Payments for Other Operating Activities	(5,302,281)	-	(5,916)	(165,405)	-	(5,473,602)	(168,858)
Payments for Interfund Services Used	(674,734)	-	(18,915)	(8,448)	-	(702,097)	-
Net Cash Provided (Used) by Operating Activities	102,718	3,932,748	258,810	33,974	3,500,000	7,828,250	(542,283)
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers (to)/from Other Funds	500,000	(3,932,748)	(100,000)	(124,141)	(5,000,000)	(8,656,889)	-
Subsidies from State and Federal Governments	346,098	-	106,492	28,525	-	481,115	-
Net Cash Provided (Used) by Noncapital Financing Activities	846,098	(3,932,748)	6,492	(95,616)	(5,000,000)	(8,175,774)	-
<b>Cash Flows From Capital and Related Financing Activities</b>							
Capital Contributions	-	-	-	1,670,268	-	1,670,268	-
Purchases of Capital Assets	(835,550)	-	-	(1,670,268)	-	(2,505,818)	-
Interest Paid on Capital Debt	(582,136)	-	-	-	-	(582,136)	-
Principal Paid on Capital Debt	(9,161)	-	-	-	-	(9,161)	-
Proceeds from Sales of Capital Assets	-	-	-	-	-	-	-
Net Cash Used by Capital and Related Financing Activities	(1,426,847)	-	-	-	-	(1,426,847)	-
<b>Cash Flows From Investing Activities</b>							
Proceeds from Sales and Maturities of Investments	-	-	-	-	-	-	225,414
Interest and Dividends Received	72,076	-	13,200	423	22,086	107,785	136,633
Net Cash Provided by Investing Activities	72,076	-	13,200	423	22,086	107,785	362,047
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(405,955)	-	278,502	(61,219)	(1,477,914)	(1,666,586)	(180,236)
Cash and Cash Equivalents, January 1, 2004 (Including \$671,600 for the Internal Service Fund Reported in Restricted Accounts)	2,828,365	-	470,786	64,335	2,548,929	5,912,415	671,600
Cash and Cash Equivalents, December 31, 2004 (Including \$491,364 for the Internal Service Fund Reported in Restricted Accounts)	\$ 2,422,410	\$ 0	\$ 749,288	\$ 3,116	\$ 1,071,015	\$ 4,245,829	\$ 491,364

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the year ended December 31, 2004**

	Sewer Revenue	Water Revenue	Refuse and Recycling	Golf	Sewer Reserve	Totals	Governmental Activities - Internal Services
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>							
Operating Income	\$ 2,646,131	\$ 1,865,865	\$ 289,637	\$ (209,378)	\$ 0	\$ 4,592,255	\$ (60,226)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation Expense	1,225,060	561,718	97,144	122,966	-	2,006,888	-
Non-Cash Adjustment	-	-	-	(37,877)	-	(37,877)	-
(Increase) Decrease in Accounts Receivable	(432,817)	-	(104,224)	-	-	(537,041)	-
Increase in Intergovernmental Receivables	(91,896)	-	-	-	0	(91,896)	-
(Increase) Decrease in Other Receivables	(84,372)	-	-	(4,200)	-	(88,572)	779,582
(Increase) Decrease in Interfund Receivables	-	-	27,515	-	3,500,000	3,527,515	-
Increase (Decrease) in Allowance for Uncollectible Accounts	-	-	-	-	-	-	-
(Increase) Decrease in Prepaid Items	-	-	-	-	-	-	-
Increase (Decrease) in Accounts Payable	49,328	-	(66,563)	8,408	-	(8,827)	(266,711)
Increase (Decrease) in Accrued Payroll	(51,228)	-	(14,121)	(3,978)	-	(69,327)	21,332
Increase (Decrease) in Interfund Payables	(3,500,000)	-	29,422	157,954	-	(3,312,624)	-
Increase (Decrease) in Compensated Absences Payable	-	-	-	-	-	-	-
Increase in Due to Other Governments	-	-	-	79	-	79	-
Decrease in Claims and Judgments Payable	-	-	-	-	-	-	-
Increase (Decrease) in Deferred Revenue	-	-	-	-	-	-	(1,016,260)
Total Adjustments	342,512	1,505,165	-	-	-	1,847,677	-
Net Cash Provided (Used) by Operating Activities	(2,543,413)	2,066,883	(30,827)	243,352	3,500,000	3,235,995	(482,057)
	\$102,718	\$3,932,748	\$2,588,810	\$33,974	\$3,500,000	\$7,828,250	(\$542,283)
<b>Noncash Investing, Capital, and Financing Activities</b>							
Contributions of Capital Assets from Government			\$1,670,268			\$1,670,268	
Purchase of Equipment on Account	\$60,520					\$60,520	
Increase (Decrease) in Fair Value of Investments							\$24,745
Other	\$2,200					\$2,200	

See accompanying notes.

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**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Fiduciary Net Assets**  
**December 31, 2004**

	<i>Pension Trust Funds</i>	<i>Agency Funds</i>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,892,649	\$ 4,811,049
Investments, at Fair Value		
Common Stocks	87,736,575	-
United States Government and Agency Obligations	38,016,037	-
Real estate investment trusts	1,652,292	-
Corporate Obligations	27,750,764	-
Registered Investment Companies - Mutual Funds	43,265,026	-
Short-Term Investments	1,109,100	-
Receivables (Net of Allowance for Uncollectibles):		
Other	324,454	-
Accrued Investment Income	876,925	-
Total Assets	\$205,623,822	\$ 4,811,049
 <b>LIABILITIES</b>		
Accounts Payable	\$ 19,550	\$ 0
Due to Other Governments	289,568	4,811,049
Total Liabilities	309,118	4,811,049
 <b>NET ASSETS</b>		
Held in Trust for Employees' Pension Benefits	205,314,704	-
	\$205,623,822	\$ 4,811,049

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the year ended December 31, 2004**

	<i>Total Pension Trust Funds</i>
<b>ADDITIONS TO NET ASSETS</b>	
Contributions	
Employer	\$ 3,606,376
City of Erie Water Authority	246,868
Plan Members	<u>5,177,045</u>
Total Contributions	<u>9,030,289</u>
Investment Earnings	
Net Appreciation (Depreciation) in Fair Value of Investments	9,864,250
Interest and Dividends	6,744,655
Investment Class Action Settlements	16,829
Less: Investment Expenses	<u>681,042</u>
Total Investment Earnings	<u>15,944,692</u>
Transfers from other pension plans	-
Total Additions To Net Assets	<u>24,974,981</u>
 <b>DEDUCTIONS FROM NET ASSETS</b>	
Benefits Paid	19,064,283
Participant Refunds	196,433
Administrative Expenses	<u>211,986</u>
Total Deductions From Net Assets	<u>19,472,702</u>
 Net Increase (Decrease) to Net Assets	 5,502,279
 <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
Net Assets, January 1, 2004	<u>199,812,425</u>
 Net Assets, December 31, 2004	 <u><u>\$205,314,704</u></u>

**CITY OF ERIE, PENNSYLVANIA**

**Statement of Net Assets**

**Component Units**

**December 31, 2004**

	<i>Erie Municipal Park Authority</i>	<i>Redevelopment Authority of the City of Erie</i>	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Erie Sewer Authority</i>	<i>Total</i>
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 0	\$ 69,698	\$ 471,720	\$ 1,894,633	\$ 21,768	\$ 2,457,819
Investments	-	-	2,794,848	-	-	2,794,848
Receivables (net of allowance for uncollectibles)	217,221	98,707	586,966	801,287	577,700	2,281,881
Inventories	-	-	184,459	-	-	184,459
Prepaid	-	-	268,082	141,893	-	409,975
Restricted Assets:						
Cash and Cash Equivalents	-	314,252	2,432,886	513,814	12,678,926	15,939,878
Investments	-	-	1,577,948	3,456,833	7,520,464	12,555,245
Other	-	-	-	3,062	23,574	26,636
Capital Assets:						
Non-depreciable	-	-	-	2,285,377	-	2,285,377
Depreciable (Net)	-	532,503	22,776,871	26,978,078	70,218,430	120,505,882
Bond Issue Costs (Net)	-	-	-	878,060	-	878,060
Net Pension Benefit Asset	-	-	368,038	-	-	368,038
<b>Total Assets</b>	<u>\$ 217,221</u>	<u>\$ 1,015,160</u>	<u>\$ 31,461,818</u>	<u>\$ 36,953,037</u>	<u>\$ 91,040,862</u>	<u>\$160,688,098</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ 75,233	\$ 218,929	\$ 363,786	\$ 521,988	\$ 1,179,936
Accrued Liabilities	-	53,337	986,691	85,735	-	1,125,763
Accrued Interest Payable	-	-	-	472,310	-	472,310
Deferred Revenue	-	150,000	254,185	-	-	404,185
Non-Current Liabilities						
Due Within One Year						
Bonds, Loans and Leases Payable	217,221	17,843	-	880,000	2,462,768	3,577,832
Due In More Than One Year						
Bonds, Loans and Leases Payable	-	673,360	-	28,314,280	57,169,251	86,156,891
<b>Total Liabilities</b>	<u>217,221</u>	<u>969,773</u>	<u>1,459,805</u>	<u>30,116,111</u>	<u>60,154,007</u>	<u>92,916,917</u>
<b>NET ASSETS</b>						
Invested in Capital Assets (net of related debt)	-	(158,700)	22,776,871	2,166,936	8,686,195	33,471,302
Restricted for:						
Other	-	-	4,010,834	3,152,427	22,178,892	29,342,153
Unrestricted:						
Undesignated (Deficit)	-	204,087	3,214,308	1,517,563	21,768	4,957,726
<b>Total Net Assets</b>	<u>-</u>	<u>45,387</u>	<u>30,002,013</u>	<u>6,836,926</u>	<u>30,886,855</u>	<u>67,771,181</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 217,221</u>	<u>\$ 1,015,160</u>	<u>\$ 31,461,818</u>	<u>\$ 36,953,037</u>	<u>\$ 91,040,862</u>	<u>\$160,688,098</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**Component Units**  
**For the year ended December 31, 2004**

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
	Charges for Services	Capital Grants and Contributions		Primary Government		
		Operating Grants and Contributions	Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>	<b>Expenses</b>					
Governmental activities:						
Culture and Recreation	\$ 86,563	\$ -	\$ 0	\$ (9,726)	\$ -	\$ (9,726)
Economic and community development	3,252,694	3,053,476	-	(199,218)	-	(199,218)
Total Governmental Activities	3,339,257	3,053,476	0	(208,944)	-	(208,944)
Business-type activities:						
Public transportation	13,328,864	6,498,094	1,144,191	-	(608,152)	(608,152)
Metered parking	4,942,877	-	756,024	-	86,048	86,048
Sewer	6,605,094	-	1,406,300	-	6,921	6,921
Total Business-type Activities	24,876,835	6,498,094	3,306,515	-	(515,183)	(515,183)
Total component units	\$ 28,216,092	\$ 9,551,570	\$ 3,306,515	\$ (208,944)	\$ (515,183)	\$ (724,127)
		General Revenues:				
		Interest Earnings		1,099	807,880	808,979
		Miscellaneous		21,159	15,909	37,068
		Transfers		-	-	-
		<b>Total General Revenues and Transfers</b>		22,258	823,789	846,047
		Changes in net assets		(186,686)	308,606	121,920
		Net assets - Beginning of Year		232,073	67,417,188	67,649,261
		Net assets - End of Year		45,387	67,725,794	67,771,181

# CITY OF ERIE, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2004

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the year ended December 31, 2003, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

### Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government:	City of Erie
Discretely Presented Component Units:	Redevelopment Authority of the City of Erie Erie Municipal Park Authority Erie Metropolitan Transit Authority Erie Parking Authority Erie Sewer Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

### *Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. Currently, the City has no blended component units.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the following entities have been included as discrete component units:

Redevelopment Authority of the City of Erie - This authority was created to operate demolition and rehabilitation projects within the City. The primary source of income is from Community Development Block Grant monies, which are allocated solely by the primary government. This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

Erie Municipal Park Authority - This financing authority was created to finance improvements to the park area of the Erie Zoo. The City is contingently liable for the debt of the authority under an agreement, which is more fully described on page 93. This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

Erie Metropolitan Transit Authority - This is an operating authority created to provide mass transportation services to Erie County. The authority's main sources of revenue include income from operations, federal and state grants and local matching funds provided by the City and the County. This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

Erie Parking Authority - This authority operates the municipal parking ramps and lots and enforces parking regulations throughout the City. The City has entered into a Guaranty Agreement with the authority whereby the City has unconditionally guaranteed the payment of principal and interest of the Series 1998 and 1994 bonds (See page 96). This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Erie Sewer Authority - This is a financing authority created to acquire property and equipment for a sewage treatment plant. The City is contingently liable for the debt of the authority under an agreement, which is more fully described on page 100. In 2002 and prior years, the City entered into Guaranty Agreements whereby the City will guarantee payment of principal and interest on the 2001 series of bonds and on notes financed with Pennsylvania Infrastructure Investment Authority (Pennvest). This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

Complete financial statements of the individual component units for periods ended and for the reports issued thereon dated, as listed below, can be obtained from their respective administrative offices or from the City Clerk's office in the Municipal Building.

### Administrative Offices:

Redevelopment Authority of the City of Erie  
126 West 9th Street  
Erie, Pennsylvania 16501  
December 31, 2004  
Unqualified opinion dated May 25, 2005

Erie Parking Authority  
25 East 10th Street  
Erie, Pennsylvania 16501  
December 31, 2004  
Unqualified opinion dated February 4, 2005

Erie Metropolitan Transit Authority  
127 East 14th Street  
Erie, Pennsylvania 16503  
June 30, 2004  
Unqualified opinion dated July 30, 2004

Erie Sewer Authority  
c/o PNC Bank  
P.O. Box 8480  
Erie, Pennsylvania 16501  
December 31, 2004  
Unqualified opinion dated February 21, 2005

Erie Municipal Park Authority  
National City Bank  
300 Fourth Avenue  
Pittsburgh, Pennsylvania 15278-2331  
December 31, 2004  
Unqualified opinion dated June 16, 2005

### Related Organizations

The City of Erie has created various municipal authorities, a non-profit corporation and a council, which operate independently of the City. The members of the boards of these entities have been appointed by the City, but the City's accountability for these organizations does not extend beyond making the appointments. The following represents a listing of related organizations of the City:

Erie City Water Authority - This authority was created to operate the City's public water system and to provide water service to the City and other portions of Erie County.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

City of Erie Housing Authority - This is an operating authority created to administer federal housing programs for low and middle-income families and the elderly.

Erie Municipal Airport Authority - This authority was created to operate the Erie International Airport.

Erie Western Pennsylvania Port Authority - This operating authority has oversight responsibility for waterfront properties businesses on the waterfront and the lake cargo operations.

Higher Education Building Authority - A financing authority created to undertake projects for colleges and universities or in institutions of higher learning within or outside the City.

Erie Zoological Society - This non-profit corporation was created to operate the Erie Zoo.

Erie County Solid Waste Management Council - An organization to foster cooperative efforts to resolve problems, determine policies and formulate and implement plans relating to solid waste management.

### **Government-Wide and Fund Financial Statements**

The statement of net assets and the statement of activities display information about the city for all non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between those activities of the City that are governmental and those that are considered business type activities. The statement of Net assets presents the financial condition of the governmental and business type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

The City maintains its financial records on the fund basis of accounting, and each fund is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements of this report, into three fund categories in eight fund types, as follows.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

For purposes of presentation, the statements have been segregated into activities of the primary government and those of its component units. The combination of these activities, comprise the total reporting entity.

The government reports the following major governmental funds:

General Fund - The General fund is the principal fund of the City, which accounts for all financial transactions not accounted for in other funds.

Debt Service Fund - The Debt Service fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest.

HUD Programs – Federal funded for the development of the City as a viable urban community by providing decent housing and a suitable living environment, and by expanding economic opportunities for persons of low and moderate income.

Other Grant Funds – Federal, state and local funded projects for the construction of a baseball park; public safety equipment purchases; recycling projects; development and implementation of bridge, street and traffic signalization projects; park and playground improvements; summer recreation and senior citizen programs; enterprise marketing and assistance programs; various site improvements and renovations.

Liquid fuels Tax Fund – State funded for street construction and maintenance, vehicles and equipment.

Capital Improvement Fund – To account for capital additions and improvements to public buildings park and recreation facilities; vehicle and equipment acquisitions.

General Obligations Bond Fund – To account for street improvements; public buildings improvements; information technology acquisitions; capital additions and improvements to storm sewers, street, public buildings, park and recreation facilities, real estate acquisition, equipment acquisitions, city golf course improvements.

The government reports the following major proprietary funds:

Sewer Revenue Fund and Sewer Reserve – To account for the provision of sewerage services to the residents, commercial and industrial establishments of the City, and certain surrounding municipalities. A portion of the 1993 general obligation bond (Series B) is accounted for as assets to be used for capital additions and improvements to sanitary and storm sewers.

Water Revenue – To account for the assets used to provide water services to the residents and commercial and industrial establishments of the City and certain surrounding municipalities through an operating lease with the Erie Water Authority.

Refuse and Recycling – To account for the provision of refuse collection services, and the recycling and composting programs to the residents of the City.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Golf – To account for the operation of the three City owned golf courses.

Additionally, the government reports the following fund types:

Internal Service Fund - The Internal Service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The services accounted for through this fund are those related to the City's self-insurance for workers compensation, the employee's health benefit plan and all other insurance costs of the City.

Pension Trust Funds - Pension trust funds are used to account for the City's three defined benefit pension plans and the plan created and maintained in accordance with §401(a) of the Internal Revenue Code. The City also maintains and accounts for the Deferred Compensation Plans created in accordance with §457 of the Internal Revenue Code.

Agency Funds - Agency Funds are used to account for assets held by the City in trustee capacity or as an agent for individuals, private organizations and /or other funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

### **Measurement Focus**

*Government-wide Financial Statements* are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operating of the City are included in the statement of net assets.

*Fund Financial Statements* - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds. Like the government-wide financial statements, all proprietary funds are accounted for using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included in the statement of fund net assets. The statement of changes in revenues, expenditures, and changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its' proprietary activities.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

*Revenues - Exchange and Non-Exchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are reported on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is reported in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of the year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include earned income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from earned income taxes is recognized in the period in which the taxpayer earns the income. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: earned income taxes, delinquent real estate taxes, interest, and grants

*Deferred Revenue* arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that will not be collected within the available period also have been reflected as deferred revenue.

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recorded at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Assets, Liabilities and Fund Equity

*Cash Equivalents* - For purposes of this section, cash equivalents for both unrestricted and restricted cash are defined as deposits with financial institutions and short-term treasury investments with original maturities of 3 months or less.

*Investments* - Investments other than those included in the Pension Trust and Agency Funds, consist primarily of obligations of the federal government. Under the Third Class City Code, allowable investments include U.S. Treasury Bills, short-term obligations of the U.S. Government or its agencies, certificates of deposit and other obligations of the United States or any of its agencies backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its' agencies. The investments, stated at fair value, bear interest ranging from approximately 1.0% to 6.5% and are due at various dates through January 2012. Investments included in the Pension Trust and Agency Funds are stated at fair value and consist of a variety of fixed income and equity investments.

The City has adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB 31) - *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under GASB 31, the City is required to report investments at fair value.

### *Interfund Activity*

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

### *Capital Assets*

Capital assets, which include infrastructure assets, land, buildings, building improvements, equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long term debt may be capitalized regardless of the thresholds established. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed and are reported in the statement of net assets as construction in progress.

<u>Asset Category</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Infrastructure	30-50	40-100
Buildings and Improvements	20-40	20-60
Equipment	5-10	3-15
Vehicles	5-15	5-10

The City’s infrastructure consists of streets, sidewalks, and the underground distribution lines of the water and sewer systems.

*Due to Other Governments* - Taxes that are being held by the City but are owed to other taxing authorities.

*Accrued Liabilities and Long-Term Obligations* - All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

*Net Assets* – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

*Concentration of Credit Risk* - The City maintains various deposit and trust accounts presented on the balance sheet as cash and cash equivalents, investments, and restricted cash and cash equivalents and investments with several local banks. The amounts on deposit with each bank exceed the \$100,000 federally insured limit from time to time throughout the year. See page 58 *Assets Cash and Investments* for further detail. Also, the City has amounts receivable arising from property tax levies, sewer and refuse billings, earned income and occupational tax liabilities, revolving notes, property liens and other various activities. These amounts are generally due from taxpayers and citizens of the City and are, thus, subject to the economic conditions of this geographic area.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Accordingly, actual results could differ from those estimates.

### **Operating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer enterprise fund, of the refuse & recycling enterprise fund, and of the golf enterprise fund are charges to customers for sales and services. Operating expenses of the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Compliance with Financial Related Legal and Contractual Provisions**

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations.

### **Deficit Fund Balance of Individual Funds**

As reported on the balance sheet of governmental funds, the General Fund of the City has a fund deficit of \$7,649,679 at December 31, 2004 that was the result of an excess of expenditures over revenues for the year ended December 31, 2004 of \$3,012,265. This deficit was largely financed with an interfund transfer payable to the City's Debt Service Fund (\$8,356,855) and a cash transfer from the City's Sewer Revenue fund (\$4,500,000). In 2005, Council passed an ordinance which will liquidate approximately \$5,000,000 from investments in the Capital Improvements Fund. The investments at December 31, 2004 were \$13,560,417. This will be done to assist in making the debt service payments due in November of 2005. In late 2005, the City has made a commitment to reduce expenditures for wages and salaries through a combination of layoffs and reduction of hours for full-time employees. Also, the City was awarded an Early Intervention for Distressed Municipalities Program grant from the state in the amount \$100,875. This grant provides funds to municipalities experiencing fiscal difficulties for developing comprehensive multi-year financial plans and establishing short and long term financial objectives.

### **Budget Requirements, Accounting, and Reporting**

*Budget Policy* - The City annually adopts the Budget for the General Fund, Liquid Fuels Tax Fund (a Special Revenue Fund), Debt Service Fund, Capital Improvement Fund (a Capital Projects Fund), Sewer Revenue, Refuse and Recycling and Golf Funds (Enterprise Funds), and the Workers Compensation and Risk Management components of the Internal Service Fund. The City's budget ordinance provides transfer authority to (a) City Council within any fund as long as the total fund budget is not increased. The Director of Administration and Finance has the authority to annually transfer up to the lesser of 5% of the budget unit's (i.e. Office of City Council, Office of City Clerk, etc.) amount or \$5,000 without council approval and

## **NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

(b) City Council to implement grant project budgets for certain special revenue funds (other than liquid fuels) and capital projects as the grant applications are accepted or capital projects are authorized, respectively, by the City. These amounts are not included in any budgetary statements as the appropriations do not specify a time frame and therefore are not legally adopted annual budgets. Two Special Revenue Funds, BUDAG Revolving Account and Section 108 Loan Program, are not budgeted on an annual or grant/project-length basis for various reasons.

All budget amounts presented in the accompanying financial statements and required supplementary information have been adjusted for legally authorized revisions of the annual budgets during the year. Appropriations except capital appropriations, encumbrances and unexpended grant appropriations, lapse at the end of each year. Expenditures may not legally exceed budgeted appropriations at the fund level for the General Fund, Liquid Fuels Tax Fund (a Special Revenue Fund), Capital Improvement Fund (a Capital Projects Fund), Sewer Revenue, Refuse and Recycling and Golf Funds (Enterprise Funds), and the Workers Compensation and Risk Management components of the Internal Service Fund, as adopted by Council Ordinance.

*Encumbrances* - Encumbrances outstanding at year-end do not represent expenditures or liabilities in accordance with GAAP, but represent budgetary accounting controls.

All Governmental fund budgets are maintained on the cash basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year-end. The actual results of operations are presented in accordance with accounting principles generally accepted in the United States of America and the City's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and the liability incurred. Encumbrances are presented as a reservation of fund balance on the balance sheets of the Governmental funds. It is necessary to include the budgetary encumbrances to reflect actual revenues and expenditures on a budgetary basis consistent with the City's legally adopted budget and/or the City's adopted ordinances for certain special revenue funds and the capital project funds.

*Budgetary Accounting* - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Budgetary Submission - Not later than the last council meeting in November, the Mayor submits to City Council proposed operating budgets for the General Fund, Liquid Fuels Tax Fund (a Special Revenue Fund), Debt Service Fund, Capital Improvement Fund (a Capital Projects Fund), Sewer Revenue, Refuse and Recycling and Golf Funds (Enterprise Funds), and the Workers Compensation and Risk Management components of the Internal Service Fund. Budgets for certain Special Revenue Funds (other than the Liquid Fuels Tax Fund) and Capital Projects Funds are submitted throughout the year. The operating budgets, which are prepared by fund, include prior year revenue and expenditure information and current year proposed expenditures and the means of financing them.

Public Hearings - Public hearings are conducted by Council to obtain comments from the community.

## **NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

Legal Adoption - Prior to December 31, the proposed operating budget as previously submitted to City Council is legally enacted through the adoption of a Council ordinance.

Revisions - City Council may, by resolution, transfer amounts in any fund as long as the total fund budget is not increased. The Director of Administration and Finance has the authority to annually transfer up to the lesser of 5% of the budget unit's (i.e. Office of City Council, Office of City Clerk, etc.) amount or \$5,000 without Council approval. Any increase in the total budget of any fund must be adopted by City Council in ordinance form.

Budgetary Basis - Budgets for the funds listed under budgetary submission above are adopted on the cash basis of accounting.

Unexpended Appropriations - Unexpended budget appropriations expire at year-end and do not carry forward unless encumbered. Budgeted amounts in this report are presented as originally adopted or as amended by an ordinance or resolution duly approved by City Council.

Encumbrance Accounting - Encumbrance accounting, under which purchase orders and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the City.

## **NOTE C – DETAIL NOTES - ALL FUNDS**

### **Assets**

*Cash and Investments* - Cash balances available for investment by most City funds are maintained in both pooled and individual bank and investment accounts. Available cash is invested until the cash is needed for expenditures.

Cash and Cash Equivalents - The City's cash deposits, which include certificates of deposit and money market funds at year-end, are covered by a combination of federal depository insurance and marketable securities designated as collateral by the financial institutions holding City funds. These accounts are carried at cost. Balances are categorized to give an indication of the level of risk assumed by the City at year-end. At December 31, 2004 the deposits of the City can be categorized based on the level of risk assumed. Category 1 includes bank balances insured by Federal Depository Insurance Coverage (FDIC). Category 2 includes bank

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

balances collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the City’s name.

<u>Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
1. Insured or collateralized with securities held by the City or by its' agent in the City's name.	\$784,059	\$800,000
2. Collateralized with securities held by the pledging financial institutions' trust department or agent in the City's name.	785	652
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name	<u>26,111,353</u>	<u>25,555,234</u>
Total	<u><u>\$26,896,197</u></u>	<u><u>\$26,355,886</u></u>

Investments - The City's investments are categorized below to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments held by the City or its' agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's or by their trust department or agent, but not in the City's name. Investments are categorized as to the risk assumed at year-end.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
U.S. Government Securities	\$0	\$0	\$40,156,025
Corporate Bonds	-	-	31,085,534
Fixed Income Obligation	-	-	-
Common Stocks	-	-	95,184,202
Corporate Notes	-	-	3,684,797
Registered Investment Companies	-	-	12,457,369
Real Estate Investment Trust	-	-	1,652,292
Short-Term Investments	-	-	1,109,100
Medium-Term Investments	-	-	403,241
Mutual Funds	-	-	30,807,657
Total Investments	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$216,540,217</u></u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Summary of cash and investments as reflected above is as follows:

Cash and cash equivalents	\$26,896,197
Investments	<u>216,540,217</u>
Total	<u><u>\$243,436,414</u></u>

The above balance of cash and investments is reported in the accompanying financial statements as follows:

Cash and Cash Equivalents	\$26,305,074
Investments	213,090,211
Restricted Cash and Cash Equivalents	591,123
Restricted Investments	<u>3,450,006</u>
Total	<u><u>\$243,436,414</u></u>

*Accounts Receivable* - Accounts receivable represents the balance due to the Enterprise Fund as of December 31, 2004 for services provided through December 31, 2004, net of an allowance for uncollectible accounts.

	<i>Sewer Revenue Fund</i>	<i>Refuse and Recycling Fund</i>	<i>Total</i>
	<u>          </u>	<u>          </u>	<u>          </u>
Gross Accounts Receivables	\$2,232,226	\$854,836	\$3,087,062
Less: Allowance for Uncollectible Receivables	470,000	195,000	665,000
Accounts Receivable, net	<u><u>\$1,762,226</u></u>	<u><u>\$659,836</u></u>	<u><u>\$2,422,062</u></u>

The allowance generally represents accounts that are more than one year old, which have not been liened.

*Property Taxes Receivable and Deferred Revenue* - The City assesses real estate taxes on individual property valuation and collects the taxes accordingly. Some taxpayers periodically contest their assessed valuations.

The City levied real estate taxes of \$24,856,377 on January 1, 2004 based on a gross assessed valuation of \$2,559,874,047 at 9.71 mills. Real estate taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and are collected by the tax collector until December 31, at which time the uncollected taxes are required to be submitted to the County of Erie Tax Claim Bureau for collection. Taxes paid prior to March 31 are eligible for a 2% discount. The face period runs from April 1 through May 31, after which taxes are subject to a 3% penalty.

For the purposes of the fund statements, the City's real estate tax revenues are recognized as revenue in the current year to the extent they are collected or are measurable and available at December 31, 2004. Current real estate taxes receivable at December 31, 2004 consists of the face value of the tax levy uncollected at December 31, 2004.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

The receivable for outstanding delinquent tax levies at December 31, 2004 consists of the face value of the delinquent taxes plus accrued penalty and interest as confirmed by the Tax Claim Bureau of the County of Erie, Pennsylvania.

For fund statement reporting purposes, the property tax receivable represents the balance due to the City for real estate taxes levied prior to December 31, 2004. In accordance with accounting principles generally accepted in the United States of America, revenue from these receivables are recognized only to the extent received within 60 days of December 31, 2004. An estimated provision for uncollectible taxes has been made to the extent that a property's estimated market value is less than the delinquent taxes on the property. The balance of the receivable is reported as deferred revenue as follows:

Balance Held by County Tax Claim Bureau for 2004 and Prior	\$2,076,176
Balance Held by City Treasurer for 2004	1,870,451
Provision for Uncollectible Receivables	<u>(23,721)</u>
Total Property Tax Receivable	3,922,906
Cash Received in January and February 2005 and Recognized as Revenue	(46,619)
Total Lien Receivable (See page 62)	91,042
Other deferred revenue	<u>798,900</u>
Total Deferred Revenue	<u><u>\$4,766,229</u></u>

On the government-wide financial statements using the full accrual method of reporting, delinquent property taxes are recorded as revenue.

*Earned Income Tax and Occupational Privilege Tax Receivable* - The Earned Income Tax and Occupational Privilege Tax receivable represents an estimate of the City's share of the cash balance in the City tax collectors' bank account at December 31, 2004, as well as the City's share of the fourth quarter, 2004 taxes collected by the tax collector in January and February 2005 as follows:

Estimated Share of December 31, 2004 Cash Balance	\$100,000
Estimated Share of January and February 2005 Cash Receipts	<u>925,000</u>
Total Receivable	<u><u>\$1,025,000</u></u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Notes Receivable* - The City has made various loans to certain Erie businesses through the Urban Development Action Grant, Community Development Block Grant, Enterprise Loan Grant and Home Investment Partnership Program, four programs included with the Special Revenue Funds. The notes bear interest ranging from 1.0% to 6.0% with various maturities. During 2004, payments made to the City totaled \$756,816 representing \$636,746 of principal and \$120,070 of interest. The detailed activity is as follows:

Balance Outstanding at December 31, 2003	\$11,023,245
2004 Loans	997,715
2004 Write Offs	(262,731)
2004 Accrued Interest on Loans	98,643
Principal Repayments	(636,746)
Balance Outstanding at December 31, 2004	<u>\$11,220,126</u>

*Liens Receivable and Deferred Revenue* - The liens receivable represents amounts due to the City for liens assessed on properties as a result of improvements made to properties by the City for which the property owner is responsible. The four general categories of liens are nuisance liens for demolition costs, paving liens for street improvements, sewer liens for sewer lines and sidewalk liens for sidewalk paving. The receivable is being reported in the fund from which the improvement was originally financed.

Nuisance liens are being reported as Special Revenue Fund receivables to the extent the demolition costs were paid with Community Development Block Grant funds and such assessments should be accounted for as program income to these grants. The paving, sidewalk and sewer liens are being reported as a General Fund or Capital Project Fund receivable based on how these improvements were financed.

Based on the estimated market value of the properties liened compared to the lien amount, the receivables have been reduced by a provision for uncollectible liens as presented in the following table.

	<i>General Fund</i>	<i>Special Revenue</i>	<i>Capital Projects</i>
Gross Amount of Receivable	\$246,541	\$1,283,033	\$141,856
Less: Provision for Uncollectible Receivables	(155,499)	(1,006,844)	(80,336)
Net Lien Receivable	<u>\$91,042</u>	<u>\$276,189</u>	<u>\$61,520</u>

The lien receivables have been reported as deferred revenue to the extent not susceptible to accrual. Deferred revenue for the General Fund, Debt Service Fund, Special Revenue Fund, Capital Projects Fund and Enterprise Fund at December 31, 2004 is \$4,766,229, \$4,675,600, \$1,078,565, \$61,520, and \$7,912,995, respectively.

*Intergovernmental Receivable* - The intergovernmental receivable represents amounts due to the City from other governmental entities.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Other Receivables* - Other receivables represent amounts due to the City as of December 31, 2004 from an amount the City was required to post as security in the amount of \$155,037 with the Erie County Court of Common Pleas for a lawsuit between the City and the Fraternal Order of Police. As of December 31, 2004 the case was settled in favor of the City. On June 6, 2005 the City requested the Court to return all proceeds. The remaining portion of other receivables is for other miscellaneous revenues.

*Lease Agreement*

Erie City Water Authority - In 1991, the City entered into a lease agreement, whereby, the Authority, a related organization, leases the water system from the City. All assets, accounted for by the City in the Water Revenue Fund (an Enterprise Fund) are being leased for a 50-year period, as all lease extension options available to the authority per the September 11, 2001 lease amendment have been exercised. The lease calls for quarterly payments totaling \$1,250,000 with an annual 4½% inflation increase beginning in 1992. Annual lease payments to the City under the modification will increase in the year 2016 to \$3,600,000 per year and then increase further by \$200,000 in the years 2020, 2025, 2030, and 2035 at which time they will become \$4,400,000. Upon termination of the lease, the leased assets remain the property of the City. Therefore, this lease is being accounted for as an operating lease. Future minimum lease payments are presented below.

2005	\$2,314,931
2006	2,419,103
2007	2,527,963
2008	2,641,721
2009	2,760,599
2010 and thereafter	<u>120,177,062</u>
Total Future Lease Payments	<u><u>\$132,841,379</u></u>

*Prepaid items* - Prepaid items represent a lump sum payment in the amount of \$4,680,000 made in 2003 by the Sewer Authority for their share of the Series 1993 General Obligation Bonds. The payment was to be used by the City to pay down debt outstanding (original or refunded) relating to the 1993 series. The City used the proceeds toward their November 2003 debt service payment. As a result the entire amount paid by the Authority was not used as directed which resulted in a prepayment to be amortized over the life of the bonds which refunded that series (Series 2001E General Obligation Bonds).

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Capital Assets*

Capital asset activity for primary government – governmental activities for the year ended December 31, 2004 was as follows:

	<i>Primary Government</i>			<i>Ending Balance</i>
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$548,184	\$486,000	\$0	\$1,034,184
Construction in Progress	110,426	-	110,426	-
Depreciable Assets:				
Buildings and improvements	14,112,326	1,776,631	-	15,888,957
Improvements other than building	3,456,791	2,086,969	-	5,543,760
Equipment and vehicles	17,416,366	447,716	-	17,864,082
Infrastructure	1,512,651	433,695	-	1,946,346
Totals at historical cost	<u>37,156,744</u>	<u>5,231,011</u>	<u>110,426</u>	<u>42,277,329</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,380,562)	(512,722)	-	(6,893,284)
Improvements other than building	(732,897)	(218,031)	-	(950,928)
Equipment	(8,066,972)	(1,890,165)	-	(9,957,137)
Infrastructure	(19,900)	(44,621)	-	(64,521)
Total accumulated depreciation	<u>(15,200,331)</u>	<u>(2,665,539)</u>	<u>-</u>	<u>(17,865,870)</u>
Governmental activities capital assets, net	<u>\$21,956,413</u>	<u>\$2,565,472</u>	<u>\$110,426</u>	<u>\$24,411,459</u>

Capital asset activity for primary government – business-type activities for the year ended December 31, 2004 was as follows:

	<i>Primary Government</i>			<i>Ending Balance</i>
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$730,999	\$0	\$0	\$730,999
Construction in Progress	163,271	-	163,271	-
Depreciable Assets:				
Buildings and improvements	9,804,439	1,492,468	-	11,296,907
Improvements other than building	54,715,730	805,056	-	55,520,786
Equipment and vehicles	12,053,334	371,564	-	12,424,898
Totals at historical cost	<u>77,467,773</u>	<u>2,669,088</u>	<u>163,271</u>	<u>79,973,590</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,729,773)	(235,115)	-	(6,964,888)
Improvements other than building	(27,733,250)	(1,311,874)	-	(29,045,124)
Equipment and vehicles	(10,195,860)	(404,703)	-	(10,600,563)
Total accumulated depreciation	<u>(44,658,883)</u>	<u>(1,951,692)</u>	<u>-</u>	<u>(46,610,575)</u>
Business-type activities capital assets, net	<u>\$32,808,890</u>	<u>\$717,396</u>	<u>\$163,271</u>	<u>\$33,363,015</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$2,295,420
Public safety	192,896
Highways and streets	125,072
Culture and recreation	51,401
Economic and community development	750
Total depreciation expense - governmental activities	<u><u>\$2,665,539</u></u>
Business-type activities:	
Sewer	\$1,169,866
Refuse	97,144
Golf	122,966
Water	561,718
Total depreciation expense - business-type activities	<u><u>\$1,951,694</u></u>

**Liabilities**

*Pension Plans* - All City of Erie employees are covered by one of three pension plans. The plans are characteristically alike in that all contributions are made as single-employer, defined-benefit pension plans and cover only City of Erie employees. Plan assets are retained by the City of Erie Aggregate Pension Fund as a part of an aggregation of municipal pension assets pursuant to §607(b) of Act 205 for distressed municipalities. The Aggregate Pension Board of the City of Erie is responsible for the management of the plan assets. The funds are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Additionally, the City established a defined contribution deferred compensation plan for AFSCME, Teamster, non-bargaining and management employees in accordance with §401(a) of the Internal Revenue Code effective October 1, 2000. There are approximately 400 employees eligible to participate. The primary purpose of this plan is to attract and retain qualified personnel by permitting them to provide for benefits in the event of their retirement or death.

The information pertaining to the particular plans is explained in the following pages.

**NOTE C -- DETAIL NOTES - ALL FUNDS (continued)**

Officers' and Employees' Retirement Association

Plan Description

Ordinance 15-1962 established the Plan for officers and employees of the City of Erie, other than firemen and policemen. Fund assets are retained by the City of Erie Aggregate Pension Fund as part of an aggregation of municipal pension assets pursuant to Section 607 (b) of Act 205 for distressed communities. The Aggregated Pension Board is responsible for management of Fund assets. The Fund is not subject to the provisions of the Employee Retirement Income and Security Act of 1974.

The Fund is a single-employer, defined-benefit plan that covers all full-time officers and employees, other than firefighters and police officers, of the City of Erie. Participants become eligible to participate on their first day of employment.

As of January 1, 2004 and 2003 (date of latest actuarial valuation), employee membership data is as follows, excluding Erie City Water Authority employees:

	<u>2004</u>	<u>2003</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>465</u>	<u>454</u>
Active participants, vested and non-vested	<u>448</u>	<u>469</u>

Participants with twenty or more years contributory service are entitled to monthly benefits for life, beginning at age 55, equal to fifty percent of the benefit compensation base, as defined by the Fund, adjusted for service increments and other offsets, as defined in the Fund. Participants with twenty or more years service retiring prior to age fifty-five may receive the same monthly benefit, at age fifty-five, by continuing their contributions to the Fund until attaining age fifty-five. Participants terminating prior to age fifty-five with at least twelve, but less than twenty years service, are eligible for prorated early retirement benefits when they reach age sixty. The benefit will be equal to the participant's accrued benefit at the date of termination prorated by the percentage that the participant's years of service bears to twenty years. Participants terminating prior to age fifty-five may elect to receive a refund of their contributions, without interest, in lieu of an early retirement benefit. Terminated participants with less than twelve years service shall be entitled only to the total amount of their contributions paid into the Fund, without interest. Other Plan provisions provide for the payment of retirement benefits based upon total and permanent disability or death. Increases on benefit payments are at the discretion of the City of Erie upon recommendation of the managers of the Fund and are made in accordance with Section 305 of the Act of December 18, 1984.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

All participants of the Fund are required to contribute the following percentages of their gross monthly wages to the Fund – (a) four and one-half percent for single-coverage employees with no social security buyback, (b) five percent for joint coverage with no social security buyback or (c) six and one-half percent for joint coverage with 40% PIA offset buyback. The City remits participant contributions immediately after each pay period. The City makes annual contributions to the Fund equal to the amount required by state statute (per minimum funding standards or the Minimum Municipal Obligation).

### Summary of Significant Accounting Policies

The fund's policy is to prepare its' financial statements on the accrual basis of accounting. Income is recognized when earned. Fund participant contributions are recognized in the period in which contributions are withheld from the participants' wages and salaries. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments, expenditures and refunds are recognized when due and payable in accordance with the terms of the plan.

In accordance with Statement on Governmental Accounting Standards (GASB) No. 35, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust is \$61,485,019 at December 31, 2004. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

The plan issues stand-alone financial statements, which contain the schedule of employer contributions and the schedule of funding progress, and those statements can be obtained from the administrative office of the Plan or from the City Controller's office in the Municipal Building.

Other than investments insured by the United States Government, the plan held no investments in a single entity at year end that represent 5% or more of net assets available for benefits.

### Funding Status and Progress of Plan

Presented below is the "Actuarial Accrued Liability" of the Fund as determined in the Fund's January 1, 2004 and 2003 actuarial valuations. The standard measurement is the actuarial present value of total projected benefits. This standard measurement reflects the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Total projected benefits include all benefits estimated to be payable to plan members as a result of their service through the valuation date and their expected future service

The actuarial accrued liability represents the actuarial present value of estimated pension benefits that will be paid in future years to each employee included in the valuation as a result of employee services performed to date and adjusted for effects of projected salary increases; allocated on a level basis over the earnings of the employee between entry age into and assumed exit age from the Fund. The portion of this actuarial present value allocated to a valuation year is called the "normal cost". The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the "actuarial accrued liability".

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Significant actuarial assumptions used to determine the actuarial accrued liability are summarized below.

The present value of future pension payments was computed using a discount rate of 8%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the Fund, net of investment expense.

The future pension payments assume average compound annual salary rate increase of 5%.

Future benefits assume retirement age will occur at the later of age sixty-two or twelve years of contributory service.

The summary of the Fund’s unfunded actuarial accrued liability is presented below.

	<i>January 1,</i>	
	<u>2004</u>	<u>2003</u>
Present value of benefits at attained age		
Active participants	\$56,738,727	\$57,018,327
Inactive participants	1,765,090	1,103,735
Retirees and beneficiaries receiving benefits	34,161,373	32,192,554
Total present value of projected benefits	<u>92,665,190</u>	<u>90,314,616</u>
Actuarial present value or future normal costs	<u>17,579,255</u>	<u>17,716,544</u>
Actuarial accrued liability	75,085,935	72,598,072
Actuarial value of assets at fair value	<u>62,947,823</u>	<u>60,657,335</u>
Unfunded actuarial accrued liability	<u><u>\$12,138,112</u></u>	<u><u>\$11,940,737</u></u>

Employee contributions at January 1, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
All active participants	<u><u>\$10,851,846</u></u>	<u><u>\$10,719,052</u></u>

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuations of the pension benefit obligation occurred during 2004 or 2003.

Periodic employer contributions to the Fund are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability consists of various components, which are funded over the following periods: (a) Initial liability - 40 years; (b) Assumption changes - 20 years; (c) Benefit changes - 20 years; and (d) Actuarial gains and losses - 15 years. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

A comparison of the preliminary pension costs based on the respective actuarial valuations and the actual pension contributions are as follows:

	<i>January 1,</i>	
	<u>2004</u>	<u>2003</u>
Preliminary Minimum Pension Cost		
Normal Cost	\$1,638,154	\$1,645,367
Administrative expenses	80,344	69,807
Amortization of the unfunded actuarial accrued liability	<u>1,058,108</u>	<u>1,187,068</u>
Actuarial present value or future normal costs	<u>\$2,776,606</u>	<u>\$2,902,242</u>
Total current year pension contributions	<u>\$2,891,016</u>	<u>\$2,550,809</u>
Actual funding level of minimum pension cost	<u>104.12%</u>	<u>87.89%</u>

For the years ended December 31, 2004 and 2003, the pension contributions to the Fund were based on total covered payroll of the previous fiscal year. Employee contributions were based on total covered payroll of the current fiscal year. Total covered payroll was as follows:

	<i>December 31,</i>			
	<u>2004</u>	<u><i>Covered</i> <i>Payroll %</i></u>	<u>2003</u>	<u><i>Covered</i> <i>Payroll %</i></u>
Per January 1, 2004 and 2003 actuarial valuations				
Covered payroll for the prior fiscal year	<u>\$16,909,244</u>		<u>\$16,541,458</u>	
Contributions - Year ended December 31,				
Employers' contributions	\$1,675,883	9.91%	\$1,383,999	8.37%
Employee contributions	<u>1,215,133</u>	<u>7.19%</u>	<u>1,166,810</u>	<u>7.05%</u>
	<u>\$2,891,016</u>	<u>17.10%</u>	<u>\$2,550,809</u>	<u>15.42%</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

The summary of the Fund’s schedule of funding progress is presented below.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Total Covered Payroll</i>	<i>UAAL as a Percentage of Total Covered Payroll</i>
January 1, 1995	\$29.6	\$54.5	\$24.9	54.3%	\$11.8	211.0%
January 1, 1996	\$35.8	\$56.8	\$21.0	63.0%	\$11.9	176.5%
January 1, 1997	\$39.9	\$57.5	\$17.6	69.4%	\$12.5	140.8%
January 1, 1998	\$46.7	\$60.8	\$14.1	76.8%	\$13.0	108.5%
January 1, 1999	\$54.1	\$60.5	\$6.4	89.4%	\$13.4	47.8%
January 1, 2000	\$57.3	\$62.2	\$4.9	92.1%	\$14.0	35.0%
January 1, 2001	\$54.9	\$64.2	\$9.3	85.5%	\$14.5	64.1%
January 1, 2002	\$58.8	\$67.6	\$8.8	87.0%	\$15.7	56.1%
January 1, 2003	\$60.7	\$72.6	\$11.9	83.6%	\$16.5	72.1%
January 1, 2004	\$62.9	\$75.1	\$12.2	83.8%	\$16.9	72.2%

The following specific information was used in the actuarial valuation dated January 1, 2004 and 2003:

Actuarial cost method	Entry age
Unfunded actuarial liability amortization method	Level percent
Remaining amortization period	25 years
Asset valuation method	
January 1, 2004	Smoothed Market Value "without phase in"
January 1, 2003	Smoothed Market Value "without phase in"
Investment rate of return	8.0% per annum
Projected salary increases	5.0% per annum
Cost-of-living adjustments	None

*Police Relief and Pension Association*

*Plan Description*

Ordinance 15-1962 established the Plan for all police officers of the City of Erie. Fund assets are retained by the City of Erie Aggregate Pension Fund as part of an aggregation of municipal pension assets pursuant to Section 607 (b) of Act 205 for distressed communities. The Aggregated Pension Board is responsible for management of Fund assets. The Fund is not subject to the provisions of the Employee Retirement Income and Security Act of 1974.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

The Fund is a single-employer, defined-benefit plan that covers all police officers of the City of Erie. Participants become eligible to participate on their first day of employment.

As of January 1, 2004 and 2003 (date of latest actuarial valuation), employee membership data is as follows:

	<u>2004</u>	<u>2003</u>
Retirees, and beneficiaries, including widows, court-ordered, and guardians currently receiving benefits	<u>241</u>	<u>237</u>
Current employees including fully and partially vested, and non-vested	<u>208</u>	<u>207</u>
Terminated employees - vested, but not currently receiving benefits	<u>1</u>	<u>1</u>

A member may retire upon completing twenty years of service and having attained age fifty. The retirement allowance, payable monthly for life, without regard for service increments, is one-half the member's annual salary at date of retirement. Service increments earned for each year of service in excess of twenty increases the monthly benefit by one-fortieth for each year to a maximum of \$500 per month additional benefit. Members who have twelve years service and terminate before twenty years service, and have attained age fifty, may receive such portion of the pension as the period of service to the date of termination bears to the full twenty-year period of service. Other Plan provisions provide for the payment of retirement benefits based upon total and permanent disability or death. Members hired by the City of Erie Bureau of Police on or before January 1, 1981 shall receive, when retired, an annual cost of living allowance increase to their monthly benefit based on the percentage increase in the Consumer Price Index (CPI) published by the United States Department of Labor, Bureau of Labor Statistics. Adjustments to the cost of living allowances will be effective on the first day of January each year. Cost of living allowances may not at any time exceed one-half of the current salary paid a patrolman of the highest pay grade. Members hired after January 1, 1981 shall receive, when retired, increases to their monthly benefit as Council shall determine and authorize on an annual basis.

In accordance with a new labor agreement, members who retire after January 1, 2002 will receive cost of living adjustments which will provide that the pension of a retired officer shall not drop below 50% of the monthly salary being paid to a Class A patrolman.

Members are required to contribute 5% of their annual covered salary. Effective January 1, 2000, the employee contribution rate for officers hired after January 1, 1981 shall increase by one-half of one percent to a total of five and one-half percent. Effective January 1, 2002, said rate for officers will increase by an additional one-half of one percent to a total of six percent. The City remits participant contributions immediately after each pay period. The City makes annual contributions to the Fund equal to the amount required by state statute (per minimum funding standards or the Minimum Municipal Obligation).

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Summary of Significant Accounting Policies

The fund’s policy is to prepare its’ financial statements on the accrual basis of accounting. Income is recognized when earned. Fund participant contributions are recognized in the period in which contributions are withheld from the participants' wages and salaries. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments, expenditures and refunds are recognized when due and payable in accordance with the terms of the plan.

In accordance with Statement on Governmental Accounting Standards (GASB) No. 35, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust are \$71,047,555 and \$69,791,899 at December 31, 2004 and 2003, respectively. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

The plan issues stand-alone financial statements, which contain the schedule of employer contributions and the schedule of funding progress, and those statements can be obtained from the administrative office of the Plan or from the City Controller's office in the Municipal Building.

Other than investments insured by the United States Government, the plan held no investments in a single entity at year end that represent 5% or more of net assets available for benefits.

Funding Status and Progress of Plan

The summary of the Fund’s schedule of funding progress is presented on the following page.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) - Entry Age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
January 1, 1993	\$21,985,188	\$69,204,469	\$47,219,281	31.8%	\$6,344,455	744.3%
January 1, 1994	27,142,479	72,331,171	45,188,692	37.5%	6,841,264	660.5%
January 1, 1995	29,242,009	74,889,723	45,647,714	39.0%	7,061,494	646.4%
January 1, 1996	39,283,577	78,400,724	39,117,147	50.1%	6,897,732	567.1%
January 1, 1997	46,636,702	80,211,253	33,574,551	58.1%	7,785,905	431.2%
January 1, 1998	57,048,494	79,334,122	22,285,628	71.9%	7,985,915	279.1%
January 1, 1999	82,777,559	76,075,535	(6,702,024)	108.8%	8,117,183	-82.6%
January 1, 2000	86,795,663	82,005,769	(4,789,894)	105.8%	8,307,807	-57.7%
January 1, 2001	82,623,003	74,986,733	(7,636,270)	110.2%	7,968,804	-95.8%
January 1, 2002	77,544,714	78,431,402	886,688	98.9%	9,587,540	9.2%
January 1, 2003	78,550,628	80,282,806	1,732,178	97.8%	9,761,666	17.7%
January 1, 2004	81,151,396	84,916,320	3,764,924	95.6%	10,561,792	35.6%

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Employer contributions are as follows:

<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
1993	\$5,186,774	101.0%
1994	5,203,963	100.4%
1995	5,028,735	100.8%
1996	4,958,935	101.0%
1997	4,341,905	101.0%
1998	3,631,007	559.8%
1999	2,477,666	32.3%
2000	-	N/A
2001	144,796	100.0%
2002	-	N/A
2003	882,758	100.0%
2004	591,333	111.3%

*Firemen's' Pension Fund*

Plan Description

Ordinance 15-1962 established the Plan for all full-time firefighters of the City of Erie. Fund assets are retained by the City of Erie Aggregate Pension Fund as part of an aggregation of municipal pension assets pursuant to Section 607 (b) of Act 205 for distressed communities. The Aggregated Pension Board is responsible for management of Fund assets. The Fund is not subject to the provisions of the Employee Retirement Income and Security Act of 1974.

The Fund is a single-employer, defined-benefit plan that covers all full-time firefighters of the City of Erie. Participants become eligible to participate on their first day of employment.

As of January 1, 2004 (date of latest actuarial valuation), employee membership data is as follows:

Retirees and beneficiaries currently receiving benefits	<u>2004</u>	<u>2003</u>
	<u>186</u>	<u>185</u>
Active employees, including fully vested, partially vested and non-vested	<u>177</u>	<u>181</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

A member may retire upon completing twenty years of service and having attained age fifty unless the member entered the service of the fire department before December 22, 1965 in which case the member may retire without regard to age. The retirement allowance, payable monthly for life, without regard for service increments, is the higher of one-half the member's annual salary at date of retirement or one-half the highest average annual salary received during any five years of service preceding retirement. Service increments, earned for each year of service in excess of twenty, increase the monthly benefit by one fortieth for each year to a maximum of \$300 per month additional benefit. Members who retire on or after January 1, 1998 will receive a cost of living increase under the plan such that their pension benefit shall not drop below fifty percent of the monthly salary being paid to a Class A Firefighter. Other Plan provisions provide for the payment of retirement benefits based upon total and permanent disability or death. Increases on benefit payments are at the discretion of the City of Erie upon recommendation of the managers of the Fund and are made in accordance with Section 305 of the Act of December 18, 1984. During 2004, there was an ad-hoc increase for pensioners determined in accordance with guidance provided by the State.

Members are required to contribute 6% of their annual covered salary. The City remits participant contributions immediately after each pay period. The City makes annual contributions to the Fund equal to the amount required by state statute (per minimum funding standards or the Minimum Municipal Obligation).

Summary of Significant Accounting Policies

The fund's policy is to prepare its' financial statements on the accrual basis of accounting. Income is recognized when earned. Fund participant contributions are recognized in the period in which contributions are withheld from the participants' wages and salaries. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments, expenditures and refunds are recognized when due and payable in accordance with the terms of the plan.

In accordance with Statement on Governmental Accounting Standards (GASB) No. 35, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust is \$50,350,488 at December 31, 2004. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

The plan issues stand-alone financial statements, which contain the schedule of employer contributions and the schedule of funding progress, and those statements can be obtained from the administrative office of the Plan or from the City Controller's office in the Municipal Building.

At December 31, 2004, the following investments exceeded 5% of net assets available for benefits:

Templeton Funds Inc. Foreign Fund Class A	\$4,615,792
American Funds Euro Pacific Growth Fund #16	4,772,941
Blackrock Funds Small Cap Value Equity Portfolio Fund #46	3,068,636
	<u>\$12,457,369</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Funding Status and Progress of Plan

Total payroll and covered payroll for the year ended December 31, 2004 was \$10,421,217 and \$8,426,633, respectively. In 2004, net contributions made totaled \$1,584,890, as follows:

	<u>Amount</u>	<u>Covered Payroll %</u>
Municipal Contribution - City of Erie, PA - MMO	\$1,073,522	12.7%
Member Contributions	511,368	6.0%
	<u>\$1,584,890</u>	

The summary of the Fund’s schedule of funding progress is presented below.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Total Covered Payroll</i>	<i>UAAL as a Percentage of Total Covered Payroll</i>
January 1, 1995	\$16.6	\$36.6	\$20.0	45.4%	\$6.7	298.5%
January 1, 1996	\$21.2	\$38.9	\$17.7	54.5%	\$7.0	252.9%
January 1, 1997	\$24.4	\$40.5	\$16.1	60.2%	\$7.4	217.6%
January 1, 1998	\$28.9	\$48.3	\$19.4	59.8%	\$7.7	251.9%
January 1, 1999	\$43.0	\$52.3	\$9.3	82.2%	\$7.7	120.8%
January 1, 2000	\$46.1	\$52.9	\$6.8	87.1%	\$7.6	89.5%
January 1, 2001	\$44.7	\$56.1	\$11.4	79.7%	\$7.4	154.1%
January 1, 2002	\$54.1	\$59.0	\$4.9	91.7%	\$8.1	60.5%
January 1, 2003	\$56.1	\$61.8	\$5.7	90.8%	\$8.5	67.1%
January 1, 2004	\$56.1	\$61.8	\$5.7	90.8%	\$8.5	67.1%

Deferred Compensation Plan (Employer Match)

The City’s policy is to prepare the financial statements on the accrual basis of accounting. Income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Participation in the plan is optional. The plan is a discretionary, defined contribution matching plan, whereby the employees may elect to contribute up a percentage of their salary, not to exceed the IRS limits, into the deferred compensation plan through payroll deduction and the City will match the first 4% of paid contributions by 50%. The employer contribution is made into this plan and was \$445,857 for 2004 while the employee contribution is made into the §457 Plan (See Deferred Compensation Plan (Employee Contribution) section below).

In accordance with Statement of Governmental Accounting Standards (GASB) No. 27, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust is \$1,586,343 at December 31, 2004. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

The plan held no investments in a single entity at year-end that represent 5% or more of net assets available for benefits.

### *Deferred Compensation Plan (Employee Contribution)*

The City offers its' employees two deferred compensation plans created in accordance with Internal Revenue Code §457. The City of Erie 457 Deferred Compensation Plan is the original plan that has been left open for employees who choose not to transfer their assets into the new plan. The City of Erie, PA Deferred Compensation Program (§457) is the new plan that all new employees have the option of entering. The plans, administered by the City and available to all City employees, permit the employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The total contribution into the plan for 2004 was \$2,864,665.

The City's policy is to prepare the financial statements on the accrual basis of accounting. Income is recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

In accordance with Statement of Governmental Accounting Standards (GASB) No. 27, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust is \$16,893,481 at December 31, 2004. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

The plans currently have no retirees or terminated employees and 560 active employees for a total of 560 participants.

All amounts of compensation deferred under these plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Risk Management* - The City accounts for its' various insurance programs in the Internal Service Fund. Insurance, administrative and claims costs are charged to expenditures in those funds. The annual costs are billed to the other funds, which amounts are reported as revenues in the Internal Service Fund. Claim liabilities, which include incurred but not reported claims, are based on the estimated ultimate costs of settling the claims, based on historical experience. The components of this fund are Workers Compensation, Employees' Health Benefit Plan and Risk Management.

The Employees' Health Benefit Plan is a modified, self-insurance program for insuring hospitalization and medical costs. The program is limited to losses of \$100,000 annually per covered person for all programs combined. Additional coverage to the policy limits is provided through the use of stop-loss policies. The Plan is fully funded by City contributions and covers all employees and eligible dependents.

The City is exposed to various risks of losses resulting from theft, damage and destruction of assets, errors and omissions and various other actions. Beginning in 1995, the City began a "protected" self-insurance plan. The City's comprehensive excess insurance program allows the City to self-insure small losses and fully insure catastrophes. Substantially all prospective losses are covered by excess loss insurance with retained losses generally of \$25,000. At December 31, 2004 there were no material amounts of claims liabilities. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City maintains a self-insurance program for workers' compensation coverage. The fund charges back the costs to various other funds of the City based upon an appropriate risk factor, based on the Pennsylvania Workers compensation "Lost Cost" rates. This risk factor is then applied to the City's actual workers compensation losses and administrative costs in order to develop the actual charge-back amount. A third-party claim administrator establishes claim reserves and adjusts claims. The City purchases stop-loss insurance for catastrophic type losses. This insurance limits the City's payout per accident to a fixed amount. For 2004, the combined medical and indemnity stop-loss amount was \$150,000. The self-insured retention amount was \$500,000 per occurrence.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Unpaid Claims Liabilities - Workers' Compensation - The following represents the changes in approximate aggregate liabilities for the City from January 1, 2003 to December 31, 2004.

Balance, January 1, 2003	\$1,773,338
Incurred Claims and Claims Adjustment Expenses:	
Provision for Insured Events of the Current Year	367,903
Increases in Provision for Insured Events of Prior Year	(311,825)
Total Incurred Claims and Claims Adjustment Expenses	<u>1,829,416</u>
Less: Payments	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	249,032
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>233,541</u>
Total Payments	482,573
Balance, December 31, 2003	1,346,843
Incurred Claims and Claims Adjustment Expenses:	
Provision for Insured Events of the Current Year	270,618
Increases in Provision for Insured Events of Prior Year	354,341
Total Incurred Claims and Claims Adjustment Expenses	<u>1,971,802</u>
Less: Payments	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	187,195
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	<u>639,715</u>
Total Payments	<u>826,910</u>
Balance, December 31, 2004	<u><u>\$1,144,892</u></u>

*Claims and Judgments Payable* - Judgments payable represent amounts of cases against the City which the City solicitor has indicated will probably result in a liability to the City. The claims payable in the Internal Service Fund represents the open reserves for workers' compensation claims.

The City is also involved in various other litigation claims related to property damage, personal injury, civil rights and other matters, which the City is vigorously defending. The individual cases range from \$2,000 to \$500,000. With regard to unsettled cases, the range of possible outcomes varies from remote to reasonably possible. The City's aggregate potential liability is \$2,224,500, of which \$1,000,000 has been determined to have a probable outcome with the remaining amount of \$1,224,500 ranging from reasonably possible to remote outcomes.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Furthermore, litigation is pending relative to the county of Erie's Local Economic Revitalization Tax Act ("LERTA") ordinance related to property taxes. The result could require the City to return \$607,000 of property taxes representing taxes levied and collected in excess of the LERTA abatement.

*Lease Agreements*

Erie Sewer Authority - In 1972, the City entered into a lease with the Erie Sewer Authority, a component unit, wherein the Authority issued debt to acquire real estate, building and equipment for the purpose of collecting and disposing of sewage. Upon termination of the lease, the Authority retains the leased property. Therefore, this lease is being accounted for as an operating lease. During 1993, the City advanced to the authority \$6,000,000 from the proceeds of the 1993 General Obligation bond of the City in exchange for a note from the Authority. The note is in the amount of \$6,290,000, which includes the authority's pro-rata share of issue costs, discount, interest, bond insurance and original issue discount. The note was paid off in 2002.

In 1995, the Authority refunded the 1972 bonds and has issued numerous other bond issues and notes in conjunction with this lease. The annual lease payments are based on the debt service requirements of the Authority, including an additional amount to cover the administrative expenses of the Authority.

Repayment by the Authority is through semi-annual lease payments from the City in amounts necessary to retire the Authority's bonds and notes. The lease payments are due on April 15 and October 15 through 2026.

The remaining lease payments as of December 31, 2004 are as follows:

	<u>Total</u>
2005	\$5,149,941
2006	5,154,165
2007	5,157,152
2008	5,003,378
2009	5,009,954
Thereafter	<u>89,297,653</u>
Minimum Lease Obligation	<u><u>\$114,772,243</u></u>

The lease rental payment for 2004 was \$5,207,694.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Erie Municipal Park Authority - In 1964, the City entered into a rental agreement with the Erie Municipal Park Authority, a component unit, to lease certain property, which is recorded at a cost of \$1,358,991, located at the Erie Zoo, and wherein the City pays an annual rental of \$53,000 each January 1, to and including January 1, 2005. The payments are provided for the retirement of the Authority bonds and for administrative and operating expenses. The Authority paid off all bonds outstanding during the year ending December 31, 2004. Upon termination of the lease, the leased property becomes property of the City. Therefore, this lease is being accounted for as a capital lease. The total expenditure for the Erie Municipal Park Authority lease for 2004 was \$53,000.

Other Lease Agreements - The City has historically entered into other capital lease agreements to purchase equipment (fire trucks and equipment, computers, and telephone system). The City had eight capital lease agreements for equipment during the year ended December 31, 2004.

The remaining lease payments as of December 31, 2004 are as follows:

2005	\$208,912
2006	89,666
2007	19,764
2008	10,656
Total Lease Payments	<u>328,998</u>
Less: Interest Portion	<u>(22,218)</u>
Minimum Lease Obligation	<u><u>\$306,780</u></u>

*Long-Term Debt*

General obligation notes and bonds are direct general obligations of the City. Principal and interest payments are backed by the full faith, credit and taxing power of the City. Under Commonwealth of Pennsylvania Local Government Unit Debt Act limitations, the City may incur up to \$224,299,683 of non-electoral indebtedness.

General Obligation Bonds

On November 4, 1993, the City issued \$30,130,000 principal amount of General Obligation Bonds, Series A and B of 1993 for the purpose of providing funds for various paving, building improvement, recreational facility and sewer projects, to refund outstanding 1968 and 1986 Series General Obligation Bonds and to pay the costs and expenses incidental to the issuance of the bonds. The 1993 General Obligation Bonds were defeased during 2002 (See page 84).

On May 15, 1997, the City issued \$8,910,000 principal amount of General Obligation Bonds, Series of 1997 for the purpose of providing funds to finance various capital projects, and to pay the costs of issuing and insuring the Bonds. The 1997 General Obligation Bond was defeased during 1998 (See page 84).

## NOTE C – DETAIL NOTES - ALL FUNDS (continued)

On October 21, 1998, the City issued \$72,063,606 principal amount of Taxable General Obligation bonds, Series of 1998A, (the "1998A Bonds"), and the Tax-Exempt General Obligation Bonds, Series of 1998B, (the "1998B Bonds"). The 1998A Bonds were issued for the purpose of funding a portion of the City's unfunded actuarial accrued pension liability, funding capital projects and paying the costs of issuing the 1998A Bonds. The 1998B Bonds in the principal amount of \$39,133,606 were issued for the purpose of providing funds for refunding certain of the City's general obligation bonds, funding capital projects, and paying the costs of issuing the 1998B Bonds.

The 1998A Bonds and 1998B Bonds maturing on November 15, 1999 through and including November 15, 2003 were issued as current interest bonds and will bear interest at varying rates from 3.10% to 5.60%. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 1999. The 1998B Bonds maturing on November 15, 2004 through and including November 15, 2024 were issued as capital appreciation bonds and do not pay interest currently but will accrete in value and interest will be payable at maturity. Principal and compounded accreted value of the 1998 Bonds will be paid to the registered owners, when due, upon surrender of the 1998 Bonds to the designated Paying Agent.

The 2001 Bond series B defeased \$9,755,000 maturity value of the 1998B Bonds (See above). The 2001 Bond series F defeased \$10,091,656 maturity value of the Series B of 1998 (See page 82). Outstanding principal, including compounded accreted value, of the 1998A and 1998B bonds at December 31, 2004 is \$11,765,000 and \$28,738,584, respectively.

Outstanding principal, including compounded accreted value, of the 1998B Bonds in the amount of \$8,046,804 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and the expected source of debt retirement. The remaining \$20,691,780 of the 1998B Bonds is included in the Governmental Activities section of the Statement of Net Assets.

On February 21, 2001, the City issued \$28,698,631 principal amount of Taxable General Obligation Bonds, Series of 2001A, (the "2001A Bonds"), the Tax-Exempt General Obligation Bonds, Series of 2001B (the "2001B Bonds") and the Tax-Exempt General Obligation Bonds, Series of 2001C, (the "2001C Bonds"). The 2001A Bonds, in the principal amount of \$5,115,000, were issued for the purpose of refunding the taxable General Obligation Note, Series of 2000 and paying the costs of issuing the 2001A Bonds. The 2001B Bonds in the principal amount of \$8,995,000 were issued for the purpose of refunding the \$2,500,000 Note issued September 15, 1999, refunding the \$500,000 Note issued June 30, 2000 and refunding certain of the City's general obligation bonds and paying the costs of issuing the 2001B Bonds. The 2001C Bonds in the principal amount of \$14,588,631 were issued for the purpose funding capital projects and paying the costs of issuing the 2001C Bonds. The 2001A Bonds, the 2001B Bonds and the 2001C Bonds maturing on November 15, 2002 through and including November 15, 2008 were issued as current interest bonds and will bear interest at varying rates from 3.30% to 6.625% from January 15, 2001. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 2001. The 2001C Bonds maturing on November 15, 2009 through and including November 15, 2027 were issued as capital appreciation bonds and do not pay interest currently but will accrete in value and interest will be payable at maturity. Principal and compounded accreted value of the 2001 Bonds will be paid to the registered owners, when due, upon surrender of the 2001 Bonds to the designated Paying Agent. The 2001 Bond series E defeased \$6,910,000 maturity value of the Series C of 2001

## NOTE C – DETAIL NOTES - ALL FUNDS (continued)

(See below). Outstanding principal, including compounded accreted value, of the 2001A, 2001B and 2001C bonds at December 31, 2004 is \$3,535,000, \$8,935,000 and \$9,519,665, respectively. Outstanding principal of the 2001B Bonds in the amount of \$1,608,300 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$7,326,700 of the 2001B Bonds, the 2001 A Bond, and the 2001 C Bonds are included in the Governmental Activities section of the Statement of Net Assets.

On January 18, 2002, the City issued \$43,320,000 principal amount of Taxable General Obligation Bonds, Series of 2001D, (the "2001D Bonds"), the Tax-Exempt General Obligation Bonds, Series of 2001E (the "2001E Bonds") and the Taxable General Obligation Bonds, Series of 2001F, (the "2001F Bonds"). The 2001D Bonds, in the principal amount of \$18,700,000, were issued for the purpose of funding a portion of the City's unfunded actuarial accrued pension liability and paying the costs of issuing the 2001D Bonds.

The 2001E Bonds in the principal amount of \$13,530,000 were issued for the purpose of refunding the entire amount of the City's General Obligation Bonds, Series of 1993B, the refunding of a portion of the City's General Obligation Bonds Series 2001C, and paying the costs of issuing the 2001E Bonds.

The 2001F Bonds in the principal amount of \$11,090,000 were issued for the purpose refunding a portion of the City's General Obligation Bonds, Series of 1998B and paying the costs of issuing the 2001F Bonds. The 2001D Bonds, the 2001E Bonds and the 2001F Bonds maturing on November 15, 2013 through and including November 15, 2025 were issued as current interest bonds and will bear interest at varying rates from 2.50% to 6.70% from January 15, 2002. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 2002.

Principal of the 2001 D, E and F Bonds will be paid to the registered owners, when due, upon surrender of these Bonds to the designated Paying Agent. Outstanding principal of the 2001D, 2001E and 2001F bonds at December 31, 2004 is \$18,495,000, \$13,515,000, and \$11,080,000, respectively. Outstanding principal of the 2001E and F Bonds in the amount of \$5,946,600 and \$3,102,400 are being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The 2001 D and the remaining \$7,568,400 and \$7,977,600 of the 2001E and F Bonds are included in the Governmental Activities Section of the Statement of Net Assets.

On November 1, 2003, the City authorized the issuance of a General Obligation Note in the principal amount not to exceed \$2,250,000. The 2003 Note, in the principal amount of \$2,250,000, were issued for the purpose of providing funds to pay the cost of general infrastructure improvements and building improvements undertaken by the City; including improvements to the City's Downing Golf Course and Erie Golf Course and the club houses located thereon. The 2003 Note is due in annual installments commencing on the date of the first disbursement received by the City and ends on December 1, 2024. Interest is determined by the Note's Services and is calculated in accordance with the Note agreement. Outstanding principal of the 2003 Note at December 31, 2004 is \$2,250,000. The 2003 Note is included in the Governmental Activities Section of the Statement of Net Assets.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

On December 29, 2003, the City entered into a letter agreement - term loan with PNC Bank in the principal amount of \$500,000. The Term Note in the principal amount of \$500,000 will be used for construction of a new communications tower, related equipment and demolition costs. The Term Note is due in 13 equal consecutive semi-annual installments in the amount of \$25,000 each, commencing on June 30, 2004 and continuing until December 31, 2010. Interest accrues on the outstanding balance of the Note at a rate per annum equal to LIBOR plus one hundred thirty basis points. Outstanding principal of the Term Note at December 31, 2004 is \$450,000. The outstanding balance is included in the Governmental Activities Section of the Statement of Net Assets.

On September 1, 2004, the City issued \$9,560,000 principal amount of Taxable General Obligation Bonds, Series of 2004A, (the "2004A Bonds") and the Taxable General Obligation Bonds, Series of 2004B (the "2004B Bonds"). The 2004 Bonds were issued for the purpose of street improvements, public building improvements, information technology, and funding the costs and expenses related to the issuance of the 2004 bonds. The 2004 Bonds maturing on November 15, 2014 through and including November 15, 2019 were issued as current interest bonds and will bear interest at varying rates from 3.00% to 5.00% from January 15, 2005. Interest is payable semiannually on May 15 and November 15 of each year, commencing January 15, 2005. Principal of the 2004 Bonds will be paid to the registered owners, when due, upon surrender of these Bonds to the designated Paying Agent. Outstanding principal of the 2004A and 2004B bonds at December 31, 2004 is \$7,300,000, and \$2,260,000, respectively. Outstanding principal of the 2004A and B Bonds in the amount of \$9,560,000 is being classified in the Governmental Activities Section of the Statement of Net Assets.

The annual debt service requirements to maturity, including principal and interest, for the General Obligation Bonds as of December 31, 2004, are as follows:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>
2005	\$9,329,375	\$591,031
2006	9,153,281	590,700
2007	8,776,319	936,662
2008	8,812,923	892,046
2009	8,529,837	1,163,202
2010-14	40,128,912	8,388,573
2015-19	37,402,351	11,058,538
2020-24	29,040,249	9,478,077
2025-26	12,322,411	724,752
Total principal and interest	163,495,658	33,823,581
Less: Interest, other than accreted interest	29,189,179	7,598,280
Total Outstanding Liability	134,306,479	26,225,301
Less: Accreted interest	34,860,553	7,521,198
Total General Obligation Bonds	<u>\$99,445,926</u>	<u>\$18,704,103</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Long-term liability activity for the year ended December 31, 2004, was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Amounts Due Within One Year</i>
<b>Governmental Activities:</b>					
Bonds, loans and leases payable:					
General obligation bonds	\$126,435,200	\$9,560,000	(\$4,695,500)	\$131,299,700	\$4,220,500
Leases payable	455,048	-	(148,268)	306,780	207,924
Long-term loans	668,742	2,081,258	(50,000)	2,700,000	50,000
	<u>127,558,990</u>	<u>11,641,258</u>	<u>(4,893,768)</u>	<u>134,306,480</u>	<u>4,478,424</u>
Less bond discount and deferred amount on refunds	<u>(36,347,850)</u>	<u>-</u>	<u>1,487,296</u>	<u>(34,860,554)</u>	<u>-</u>
Total bonds, loans and leases payable	91,211,140	11,641,258	(3,406,472)	99,445,926	4,478,424
Other liabilities:					
Compensated absences	1,859,032	22,778	-	1,881,810	563,400
Total other liabilities	<u>1,859,032</u>	<u>22,778</u>	<u>-</u>	<u>1,881,810</u>	<u>563,400</u>
Governmental activities long-term liabilities	<u>\$93,070,172</u>	<u>\$11,664,036</u>	<u>(\$3,406,472)</u>	<u>\$101,327,736</u>	<u>\$5,041,824</u>
<b>Business-Type Activities</b>					
Bonds and loans payable:					
General obligation bonds	\$26,234,800	\$0	(\$9,500)	\$26,225,300	\$9,500
	<u>26,234,800</u>	<u>-</u>	<u>(9,500)</u>	<u>26,225,300</u>	<u>9,500</u>
Less bond discount and deferred amount on refunds	<u>(7,905,920)</u>	<u>-</u>	<u>384,723</u>	<u>(7,521,197)</u>	<u>-</u>
Total bonds and loans payable	18,328,880	-	375,223	18,704,103	9,500
Compensated absences	162,022	8,593	-	170,615	59,882
Governmental activities long-term liabilities	<u>\$18,490,902</u>	<u>\$8,593</u>	<u>\$375,223</u>	<u>\$18,874,718</u>	<u>\$69,382</u>

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Amounts Due Within One Year</i>
<b>Component Unit:</b>					
Bonds and loans payable:					
General obligation bonds	\$98,008,516	\$10,128,000	(\$14,880,863)	\$93,255,653	\$4,787,253
	<u>98,008,516</u>	<u>10,128,000</u>	<u>(14,880,863)</u>	<u>93,255,653</u>	<u>4,787,253</u>
Less bond discount and deferred amount on refunds	<u>(3,440,787)</u>	<u>(1,107,493)</u>	<u>819,835</u>	<u>(3,728,445)</u>	<u>-</u>
Total bonds and loans payable	94,567,729	9,020,507	(14,061,028)	89,527,208	4,787,253
Compensated absences	-	-	-	-	-
Governmental activities long-term liabilities	<u>\$94,567,729</u>	<u>\$9,020,507</u>	<u>(\$14,061,028)</u>	<u>\$89,527,208</u>	<u>\$4,787,253</u>

Prior Year's Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's financial statements. As of December 31, 2004, the amount of defeased debt outstanding and removed from the Statement of Net Assets amounted to \$ 42,530,403.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Compensated Absences* - Vested or accumulated vacation leave and sick pay that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the Governmental Fund that will pay such leave. Vested or accumulated vacation leave and sick pay of Proprietary Funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. The balance that has been accrued is \$2,052,427 which represents a decrease of \$139,595 from the prior year, and is recorded in the appropriate funds as a current liability.

*Other Post-employment Benefits* - In addition to pension benefits described on page 65, the City provides post-employment health insurance coverage for retirees of the Police and Firefighters unions at no cost to the participants. These benefits are provided pursuant to an arbitration award (re: salaries, wages, fringe benefits and other working conditions). In order to receive health care benefits, an employee must have 12 years of service and attain the age of 50. The cost of benefits is recognized on a pay-as-you go basis as part of the expense for health insurance (an initial premium is paid and subsequently adjusted for experience, subject to limits of individual and aggregate stop loss insurance). In 2004, the cost of post-employment benefits was \$707,343 for the 59 eligible Police retirees and \$441,012 for the 34 eligible Firefighter retirees.

### **Interfund Receivables and Interfund Payables**

Periodically throughout the year, temporary loans are made between funds to cover cash deficiencies. Accordingly, any such overdraft conditions at the balance sheet date are included in "interfund payables" and "interfund receivables." Also, during the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are also classified as "interfund receivables" or "interfund payables" on the balance sheets.

Interfund balances at December 31, 2004 consisted of the following individual fund receivables and payables as shown on the following page:

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Golf Fund	\$279,954	
Internal Service	335,188	
Debt Service	1,965,473	
Capital Improvements Fund	212,100	
Refuse	56,937	
Sewer		\$200,780
Internal Service		45,482
Debt Service		8,311,373
Capital Improvements Fund		1,500,000
Debt Service Fund:		
General Fund	8,311,373	1,965,473
Capital Improvements Fund		35,914
Sewer Revenue Fund:		
General Fund	173,265	
Sewer Reserve		300,000
Sewer Reserve Fund:		
Sewer Revenue Fund	300,000	
Refuse Fund:		
General Fund	27,515	56,937
Golf Fund:		
General Fund		279,954
Capital Improvements Fund:		
Debt Service Fund	35,914	
General Fund	1,500,000	212,100
Capital Bond Fund:		
Liquid Fuels Fund		23,431
Liquid Fuels Fund:		
Capital Bond Fund	23,431	
Internal Service Fund:		
General Fund	45,482	335,188
	<u>\$13,266,632</u>	<u>\$13,266,632</u>

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

### **Fund Equity**

The reserve for encumbrances represents the amount of the fund equity which has been committed for expenditures of the current year in accordance with the City's budgetary accounting procedures and is, therefore, not part of unreserved fund equity available to meet expenditures of the succeeding year.

The reserve for non-current notes receivable represents the amount of fund equity used to finance certain projects for which repayment will not be available to meet expenditures of the succeeding year.

Contributed capital is recorded for a component unit, which has received capital grants and contributions for the purpose of purchasing, constructing or renovating capital assets.

Additionally, a portion of the proceeds of the General Obligation Bonds of 2001 has been used to construct certain sewer assets. Since the corresponding debt is not reflected in the Sewer Revenue Fund, contributed capital is presented to reflect the value of income producing assets purchased/constructed by the Capital Projects Fund.

The reserve for equity in Authority rentals represents the amount of fund equity for the purpose of recording Authority rentals receivable in the component units.

The reserve for endowment principal is a portion of the Capital Project Fund's unreserved fund balance that has been designated to record the initial lease rental received from the Erie City Water Authority (a.k.a. Erie Water Works). At the date at which this agreement was amended and extended the amount designated was increased to \$12,750,000.

The reserve for employees' pension benefits represents the amount of fund equity that is reserved for payment of employees' pension benefits.

## **SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS & CONTINGENCIES**

### **Debt Guaranty Agreements**

The Erie Sewer Authority's Revenue Bonds, Series A and B of 2001, refunded the 1998 series A and B, restructured debt service requirements, financed various sewer projects, and are fully insured by an independent insurance company against default. The City agreed to guaranty this component unit's bond in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2004 are \$20,434,734. See page 102.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

The Erie Sewer Authority's Revenue Bonds, Series of 2001, refunded the 2000 series and are fully insured by an independent insurance company against default. The City agreed to guaranty this component unit's 2000 Series in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2004 are \$13,715,000. See page 102.

The Erie Parking Authority's Guaranteed Parking Revenue Bonds, Series 1998A and 1998B, refunded the 1987 series and advance refunded the 1995 series and are fully insured by an independent insurance company against default. The City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2004 are \$13,205,000. See page 100.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series 2003, will provide resources to construct a new parking garage and various improvements and is fully insured by an independent insurance company against default. The City agreed to guaranty this component unit's 2003 Series in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2004 are \$8,225,000. See page 100.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series 2004, were issued to advance refund the Authority's Series of 1994 and is fully insured by an independent insurance company against default. The City agreed to guaranty this component unit's 2004 Series in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2004 are \$9,385,000. See page 100.

During 1999, the Erie Sewer Authority entered into a financing agreement, evidenced by a note, with the Pennsylvania Infrastructure Investment Authority ("Pennvest"). The City agreed to guaranty this component unit's note in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. Amount outstanding at December 31, 2004 is \$421,861. See page 102.

During 1998, the Erie Sewer Authority entered into a financing agreement, evidenced by a note, with the Pennsylvania Infrastructure Investment Authority ("Pennvest"). The City agreed to guaranty this component unit's note in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. Amount outstanding at December 31, 2004 is \$935,640. See page 102.

### **Financial Award Programs**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

### **OTHER DISCLOSURES**

#### **Revolving Fund Programs**

*Bayfront Urban Development Action Grant (BUDAG)* - In 1980, the City received an Urban Development Action Grant under §179 of the Housing and Urban Development Act of 1974 (P.L. 93-383) in the amount of \$7,315,338 for the purpose of developing the bayfront area. Of this total grant award, \$1,500,000 was used by Erie Insurance for the purpose of acquiring certain parcels of property in the bayfront area. The purchase price plus interest is being repaid to the City in the form of a \$200,000 lump sum payment and 30 subsequent annual installments of \$75,179. All payments received by the City are restricted to expenditures for further improvement activities in the bayfront area subject to approval by both the City and HUD.

The City is reporting this activity as a Special Revenue Fund activity and the balance available for expenditure is presented appropriately.

*Enterprise Zone Loan Program* - During the past several years, the City has received state grant funds under the Enterprise Zone Program, which are utilized by the City in supporting businesses within the "Enterprise Zone." These funds are loaned to businesses at attractive interest rates, which the City believes results in increased business investment, job creation, and expansion and retention of manufacturing and service firms in the area. All principal and interest payments received by the City are restricted to expenditures that meet the objectives of the Enterprise Zone Program. The City is including this activity with "Other Grant Funds," a Special Revenue Fund. The balance available for expenditure is \$636,932.

#### **General Fund Budgetary Basis Budgeted Fund Balance**

The City annually includes, as budgeted revenue, the actual budgetary basis fund balance from the prior year and an amount equal to encumbrances outstanding at the end of the prior year. This approach allows the City to budget all available resources, but does not facilitate the flow of budgetary basis, budgeted fund balance from year to year. In order to demonstrate the relationship between current year revenues and expenditures, the aforementioned amounts are included as "Fund balance (deficit) January 1, 2004".

#### **Special Revenue - Liquid Fuels Tax Fund**

The initial budget for the Liquid Fuels Tax Fund, a Special Revenue Fund, represents total expected revenues and expenditures over the life of the project. In subsequent years, the revenue and expenditure budgets are "derived" by adjusting the initial budget for actual, inception-to-date amounts. This procedure causes what normally would be beginning budgeted fund balance to be included with current year revenues and expenditures. In order to properly demonstrate the flow from year to year, ending budgeted fund balance is being "reset" to zero.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

### **Prior Period Adjustments and Restatements**

#### *General Fund Restatement*

At December 31, 2003, earned income and occupational privilege tax receivable was overstated by \$480,061. As a result, taxes revenue was overstated in the prior year. The restatement has the effect of decreasing beginning fund balance by \$480,061 in the General Fund in the current year.

#### *HUD Programs Fund Restatement*

At December 31, 2003, grants receivable was understated by \$1,090,355. As a result, intergovernmental revenue was understated in prior years. The restatement has the effect of increasing beginning retained earnings by \$1,090,355 in the HUD Programs Fund in the current year.

#### *Enterprise Fund Restatement*

At December 31, 2003, golf fees revenue was overstated by \$37,877. The restatement has the effect of decreasing beginning retained earnings by \$37,877 in the Enterprise Fund in the current year.

### **Subsequent Events**

*Tax and Revenue Anticipation Note* - The City issued a tax and revenue anticipation note of \$3,050,000 on January 13, 2005, bearing an interest rate of 2.99%, payable December 29, 2005.

The Pennsylvania Department of the Auditor General has informed the City that employee theft has occurred in the Office of Traffic Court. Initial loss estimates approximate \$150,000 with at least one employee involved in the theft. The Auditor General's investigation is on-going and additional losses, if any, can not be reasonably determined. At this time, however, no estimate can be made as to the time or amount, if any, of ultimate recovery of these funds.

## **COMPONENT UNIT DISCLOSURES**

### **Redevelopment Authority of the City of Erie**

*Activities* - The Redevelopment Authority of the City of Erie is an authority created under the Urban Redevelopment Law, Act 385 of 1945, by the Commonwealth of Pennsylvania in agreement with the City of Erie, with the primary objective of developing viable urban communities, including decent housing and suitable living environments, and expanding economic opportunities, principally of persons of low and moderate income. Consistent with this primary objective, the federal, state and local assistance provided is for the support of community development activities.

*Basis of Accounting* – The Authority has adopted the provisions of GASB Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. The accompanying financial information has been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Cash Deposits* - the Redevelopment Authority's cash deposits are covered by federal depository insurance and collateralized by security pools held by the Authority's authorized depositories in accordance with Pennsylvania Pledge Act 72. At December 31, 2004, the deposits of the Authority can be categorized to indicate the level of risk assumed. Category 1 includes bank balances insured by the FDIC. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department of agent in the Authority's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the Authority's name.

	<i>Category</i>			<i>Bank</i>	<i>Carrying</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>Balance</i>	<i>Amount</i>
Cash	<u>\$216,582</u>	<u>\$0</u>	<u>\$227,380</u>	<u>\$443,962</u>	<u>\$383,950</u>

The Authority has adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB 31) - "Accounting and Financial Reporting for Certain Investments and External Investments Pools." Under GASB 31, the Authority is required to report investments at fair value.

*Property and Equipment* – Property and equipment purchased or acquired with an original cost of \$2,000 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is recorded on the straight-line basis over the estimated useful life. The Authority depreciates their real property over 27.5 years. Property and equipment activity for the year ended December 31, 2004, was as follows:

	<i>Beginning</i>			<i>Ending</i>
	<i>Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance</i>
Real Property	<u>\$ 666,421</u>	<u>\$ 26,000</u>	<u>\$ 139,307</u>	<u>\$ 553,114</u>

*Long-term Debt* - The Authority entered into a mortgage agreement dated May 14, 1992 with an association of local banks. The mortgage payable of \$104,000 consists of a non-interest bearing note secured by various parcels of real estate. The net proceeds from sales are applied against the principal balance of this. The Authority does not anticipate repayment of any portion of this loan within the next year, therefore the entire balance has been classified as long-term. As of December 31, 2004, the balance of this loan remained at \$104,000 and the terms of the loan have not been renegotiated. The second loan is an open-end mortgage agreement entered into November 25, 2002 with a local bank. The original amount of this mortgage was for \$175,000. The term of this loan is for 20 years and requires monthly payments of \$1,249, which includes interest at 5.95%. This interest rate is fixed for 10 years, at which time it will adjust to a new rate as described in the loan agreement. This new rate shall be effective for the remaining 10 years of the term of this loan. The Authority's main office building serves as collateral for this loan.

## NOTE C – DETAIL NOTES - ALL FUNDS (continued)

As of December 31, 2004, the outstanding balance was \$164,864. In November of 2003, the Authority borrowed \$180,000 from the City of Erie for the purchase of ten properties along 17<sup>th</sup> and 18<sup>th</sup> Streets and to pay for various attorneys' fees. The properties serve as collateral for the loan. The loan bears a 3% interest rate; however, no interest has been accrued by the Authority. The Authority does not anticipate repayment of any portion of this loan within the next year, therefore the entire balance has been classified as long-term. As of December 31, 2004, the outstanding balance was \$180,000. During September of 2003, the Authority borrowed \$233,600 from a local bank for the purchase of four properties along West 5<sup>th</sup> Street. The term of this loan is for 15 years and requires 180 monthly payments of \$1,887, which includes interest at 5.25%. The interest rate is fixed for three years at which time it will adjust to a new rate as described in the loan agreement. The properties serve as collateral for this loan. As of December 31, 2004, the outstanding balance was \$220,460. The fifth loan entered into on December 19, 2003 is with an individual. The original amount of this mortgage was for \$23,000. The term of this loan is for 25 years and requires monthly payments of \$175, which includes interest at 4.25%. This interest rate is fixed for the life of the loan term. A balloon payment of approximately \$19,000 will be due in December 2008. The 428 E. 11<sup>th</sup> Street property serves as collateral. As of December 31, 2004, the outstanding balance was \$21,879.

*Compensated Absences* - Employees of the Authority are entitled to paid vacation and paid sick days, depending on length of service. No more than thirty vacation days may be carried over from one calendar year to the next. Sick leave may be accumulated, but no more than one hundred days may be carried from one calendar year to the next. In addition, employees have the option to receive one day's pay for every four days unused sick leave. This option is only available for unused days earned during the current year. It is impracticable to estimate the allocation of compensation for future absences among the various projects and, accordingly, no liability has been recorded in the accompanying financial information. The Authority's policy is to recognize the costs of compensated absences when actually paid to the employee.

*Pension* - The Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completing six months of service and 1,000 hours of service during the plan year. The plan stipulates that the Authority shall contribute and allocate to the account of each eligible participant 7½% of such participant's compensation. Each participant shall contribute 5½% of such participant's compensation. The Authority's contribution for each participant is fully vested after five years of continuous service. Each participant has a 100% vested interest in his or her contribution regardless of length of service. The Authority's contributions for the plan year ended June 30, 2004, were calculated using the total compensation of eligible participants in the amount of \$250,587. Both the Authority and the covered employees made the required contributions, amounting to \$18,794 from the Authority and \$14,579 from the covered employees.

*Transactions with the Primary Government* - During 2004, the Redevelopment Authority received \$1,802,905 in grants from the City of Erie, recorded as intergovernmental revenue in the component unit's Statement of Revenues, Expenditures and Changes in Fund Balance.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

### **Erie Municipal Park Authority**

*Activities* - The Erie Municipal Park Authority, a financing Authority incorporated June 12, 1964, was formed to acquire and improve the park, playgrounds and recreation grounds located at the Erie Zoological Society. It has since entered into a lease with the City of Erie for the park grounds which revenue is used to finance the interest and debt reduction of the Authority.

*Basis of Accounting* - The accompanying financial information has been prepared on the modified accrual basis of accounting. Under this method, revenues are recorded when susceptible to accrual, for example, both measurable and available. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable.

*Investments* - The investments stated at fair value at December 31, 2004 consist of U.S. Treasury trust obligations.

*Property, Plant and Equipment* - The Authority's fixed assets relating to the bond issues are reflected in the General Fixed Assets Account Group of the City of Erie.

*Long-Term Debt* - The Authority has incurred certain debt with a bank for the purpose of loaning the proceeds to the Erie Zoological Society to finance its construction and improvements to the Children's Zoo. As funds are drawn down for construction and improvements, the Authority records both a liability for the note payable and an asset for the loan receivable from the Erie Zoological Society. The debt, referred to as Series 2002A, carried an original balance of \$425,000. Interest only payments in the amount of \$1,152 are due from November 5, 2002 through September 5, 2003 and bear interest at 3.15%. Principal and interest payments in the amount of \$7,674 begin October 5, 2003 and end May 5, 2005. The remaining balance as of December 31, 2004, amounts to \$217,221.

### **Erie Metropolitan Transit Authority**

*Activities* - The Authority is an operating authority created by the City and the County of Erie in 1967 for the purpose of operating the public transportation system of the City and County of Erie. The operation's deficits are funded by the U.S. Department of Transportation, Pennsylvania Department of Transportation, City of Erie, County of Erie and other municipalities of the County of Erie. Also, the physical plant and equipment of the Authority was obtained and continues to be obtained with funding from these same sources.

*Basis of Accounting* - The records covering transit operations are maintained on the accrual basis of accounting. Under this method revenues are recognized when they are earned and expenses are recognized when they are incurred. The records supporting the capital grant projects in which there is federal government participation are maintained in accordance with the requirements of the U.S. Department of Transportation and are also maintained on the accrual basis.

*Deposits with Financial Institutions and Investments* - Deposits are primarily in local financial institutions, and are also invested in the Pennsylvania Local Government Trust Fund (PLGIT) located in Harrisburg,

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Pennsylvania; the Government Income Securities, Inc. Fund which is located in Boston, Massachusetts; mortgage-backed securities through PaineWebber; federal securities mutual funds and U.S. Treasury Notes. Investments are carried at fair value, which approximates cost.

*Investments* - Certain investments are restricted by grant agreements. The restricted amounts are as follows:

Pennsylvania Department of Transportation, Act 26, Section 1310	\$2,739,420
Pennsylvania Department of Transportation, Act 3, Additional Supplemental Grant and Base Supplemental Grant	1,271,414
	<u>\$4,010,834</u>

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The deposits and investments policy of the Authority adheres to statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or certificates of deposit.

Cash and cash equivalents consist of the following:

<u>Category</u>	<u>Carrying Amount</u>
1. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.	\$286,102
2. Collateralized with securities held by the pledging financial institutions' trust department or agent in the Authority's name.	-
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the	2,618,504
Total	<u>\$2,904,606</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Investments are stated at fair value, which approximates cost. Details are as follows:

<i>Mutual Funds investing in securities of:</i>	<i>Carrying Amount</i>
U.S. Government and/or U.S. Government agencies (uncategorized)	\$1,576,519
Pennsylvania Local Government Income Trust (uncategorized)	373,503
U.S. Government Agencies	1,196,030
Repurchase agreements	692,253
Money market funds (uncategorized)	534,491
Total	<u><u>\$4,372,796</u></u>

*Capital Assets* - The capital assets carried on the books at cost and consist of the following:

	<i>Estimated Useful Lives in Years</i>	<i>Balance January 1, 2004</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>	<i>Dispositions</i>	<i>Balance December 31, 2004</i>
Land	N/A	\$189,369	\$0	\$0	\$0	\$189,369
Land Improvements	10-15	241,859	12,903	-	30,885	223,877
Buildings and Improvements	5-33	4,025,061	18,213	(58,344)	214,115	3,770,815
Buses	5-12	17,241,210	347,457	(103,240)	308,191	17,177,236
Fare Boxes	12	410,090	668,124	(7,250)	362,611	708,353
Vehicles and Equipment	4-7	305,596	26,302	(4,316)	12,879	314,703
Shop and Garage Equipment	5-12	1,339,046	36,428	114,806	374,988	1,115,292
Office Furniture and Equipment	5-10	405,568	98,308	-	141,265	362,611
Radio Equipment	12	497,355	420	-	-	497,775
Bus Shelters	12-15	240,280	-	58,344	-	298,624
Suburban Mobility Study	N/A	99,341	-	-	-	99,341
Park and Ride	30	1,937,802	-	-	-	1,937,802
Intermodal Center	30	8,886,540	92,809	-	-	8,979,349
CNG Facility	30	1,620,317	-	-	-	1,620,317
Total		<u>37,439,434</u>	<u>1,300,964</u>	<u>-</u>	<u>1,444,934</u>	<u>37,295,464</u>
Less: Accumulated Depreciation		<u>(13,509,730)</u>	<u>(2,453,797)</u>	<u>-</u>	<u>(1,444,934)</u>	<u>(14,518,593)</u>
Net Investment in Transit System		<u><u>\$23,929,704</u></u>	<u><u>(\$1,152,833)</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$22,776,871</u></u>

*Inventories* - Inventories, which consist primarily of replacement parts, fuel and oil, are generally valued at average cost. Garage and office supplies are not inventoried.

*Pension* - All Authority full-time employees participate in the single-employer defined benefit pension plan maintained by the Authority. Covered employees are required to contribute \$6.75 plus 40% of the required monthly contributions over \$13.50. The Authority is required to contribute \$6.75 plus 60% of the required monthly contributions over \$13.50.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

In 1994, the Authority adopted a Non-Bargained Employees Supplemental Retirement Plan, which was implemented to provide supplemental benefits to the Authority's non-bargained employees. The plan is contributory and provides monthly payments upon retirement at age 65. Early retirement is permitted after age 52 and 15 years of service. Contributions to the supplemental plan are provided 60% from the employer and 40% from the employee. Both plans issue financial reports that include financial statements. Those reports may be obtained by contacting the Erie Metropolitan Transit Authority. The annual required contributions for the current year were determined as part of the May 1, 2001 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7% investment rate of return and (b) projected salary increases of 4% per year for the Regular Plan and 3% per year for the Supplemental Plan. The actuarial value of assets was determined using the five-year moving average appreciation method. The unfunded actuarial accrued liability is being amortized on the level dollar payment method on a closed basis. The remaining amortization period at April 30, 2003 was 11 years for the Regular Plan and 15 years for the Supplemental Plan.

Trend Information

	<i>Plan Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Pension Obligation (Asset)</i>
Regular Plan	04/30/02	\$263,647	109.4%	(\$91,031)
	04/30/03	224,719	123.3%	(149,675)
	04/30/04	231,523	114.1%	(192,731)
Supplemental Plan	04/30/02	\$33,445	107.2%	(146,615)
	04/30/03	32,696	110.7%	(160,362)
	04/30/04	32,718	111.4%	(175,307)

The Plan issues stand-alone financial statements, which contain the schedule of employer contributions and the schedule of funding progress, and those statements can be obtained from it's administrative office or from the City clerk's office in the Municipal Building.

*Line of Credit* - The Authority has available a revolving credit agreement for a maximum of \$100,000 with a local bank which has been extended through May 15, 2005. The line is unsecured and bears interest at the prime rate minus 1½ percent.

**Erie Parking Authority**

*Activities* - The Erie Parking Authority is an operating authority created for the purpose of operating metered street parking and off street parking lots and ramps in the City of Erie.

*Basis of Accounting* - The accompanying financial information had been prepared on the accrual basis of accounting. Under this method revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Restricted Assets* - In accordance with the terms and conditions of its trust indenture, the Authority has restricted assets for the specific purposes of debt service, debt service reserve, bond retirement, construction, and capital improvements.

*Cash and Investments* - The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

Cash and Cash Equivalents - The Authority's cash deposits are carried at fair value. The year-end balances are categorized as follows with respect to credit risk.

	<u>Category</u>	<u>Carrying Amount</u>
1.	Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.	\$ 286,182
2.	Collateralized with securities held by the pledging financial institutions' trust department or agent in the Authority's name.	-
3.	Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.	2,122,265
	Total	<u>\$ 2,408,447</u>

Investments - The Authority's investments are categorized below to give an indication of the level of credit risk assumed at year-end. Investments in pooled money market funds are not categorized.

Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent, in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments held by the financial institution's trust department or agent, but not in the Authority's name. Investments are categorized as to the risk assumed at year-end.

	<u>Category</u>			<u>Cost</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Government obligations due at various dates bearing interest at 1.88%	\$1,508,366	\$0	\$0	\$1,508,366
FNMA note bearing interest at 5.22%, maturing 02/02/2005	1,948,467	-	-	1,909,052
	<u>\$3,456,833</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,417,418</u>

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

The above investments are restricted for revenue bond debt service, bond retirement, construction and capital improvements and will be held to maturity.

*Capitalization and Depreciation* - Property is stated at cost. Expenditures for additions, replacements and major renovations are capitalized while those for normal repairs and maintenance are expensed in the year incurred. Depreciation of property is computed using the straight-line method over the estimated useful lives of the various assets. Estimated useful lives are as follows:

Parking Ramps	45 years
Surface Lots	10 to 25 years
Meters and Collection Equipment	10 years
Other Equipment and Vehicles	5 to 10 years

A summary of property activity for 2004 is as follows:

	<i>Balance</i>			<i>Balance</i>
	<i>January 1, 2004</i>	<i>Additions</i>	<i>Dispositions</i>	<i>December 31, 2004</i>
Land	\$2,285,377	\$ -	\$ -	\$2,285,377
Parking Facilities	34,523,958	5,859,262	-	40,383,220
Metered Collection Equipment	599,437	67,830	-	667,267
Other Equipment and Vehicles	468,447	12,603	-	481,050
Total Fixed Assets	37,877,219	5,939,695	-	43,816,914
Less: Accumulated Depreciation	13,559,574	993,885	-	14,553,459
Net Fixed Assets	<u>\$24,317,645</u>	<u>\$4,945,810</u>	<u>\$ -</u>	<u>\$29,263,455</u>

*Compensated Absences* - Earned vacation is generally required to be used in the year of accrual. The Authority's employees are allowed to accumulate a maximum of 120 days of sick pay. If not used, 33% of the accumulated sick pay will be paid upon retirement. Accumulated sick pay is lost in the events of termination or death. The accrued sick pay liability at December 31, 2004 amounted to \$32,682.

*Pension* - The Authority maintains a single-employer defined benefit pension plan, which covers substantially all of its employees. Employees are eligible to participate beginning on the first day of the calendar year after their date of employment. Plan benefits begin vesting after five years of service with full vesting occurring after fifteen years of service, in an amount equal to \$17.00 for each year of credit service. The Plan also provides for early retirement, death and disability benefits.

The Plan issues stand-alone financial statements, which contain the schedule of employer contributions and the schedule of funding progress, and those statements can be obtained from it's administrative office or from the City Clerk's office in the Municipal Building.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Funding Policy

Employees are not required to pay a portion of their total compensation to the plan. The Authority's funding policy provides for actuarially determined periodic contributions at rates that sufficient assets will be available to pay benefits when due.

The contribution rate for normal cost is determined using the Entry Age Normal Actuarial Cost Method, which is in compliance with the guidelines of Act 205 under the Minimum Municipality Obligation.

Annual Pension Cost and Net Pension Obligation	
Annual Required Contribution	\$30,343
Interest on Net Pension Obligation	2,124
Adjustment to Annual Required Contribution	-
Annual Pension Cost	<u>32,467</u>
Contributions Made	<u>(37,620)</u>
Increase in Net Pension Obligation	(5,153)
Net Pension Obligation Beginning of Year	<u>37,620</u>
Net Pension Obligation End of Year	<u><u>\$32,467</u></u>

The annual required contribution was determined as part of January 1, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions including (a) a 7.0% per year assumed rate of return on the investment of present and future assets compounded annually, and (b) retirement of employees at their normal retirement dates. The actuarial value of assets was determined using the fair market value of assets.

Trend Information

<i>Fiscal Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
12/31/02	\$ 39,387	100%	\$ 39,387
12/31/03	37,620	100%	37,620
12/31/04	32,467	0%	32,467

The Authority also maintains a 401(k) retirement savings plan for its employees. Benefits payable are dependent solely on amounts contributed to the plan plus investment earnings. Participants may contribute up to the maximum percentage allowed by law of their compensation to the plan of which up to six percent is matched by the Authority. The Authority's contribution to the plan amounted to \$47,013 in 2004. Employee contributions to the Plan amounted to \$54,174 in 2004. At December 31, 2004, the plan has \$500 in forfeitures available to reduce future contributions by the Authority.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Long-Term Debt* - The Erie Parking Authority has entered into the following debt agreements:

Series of 1998 Refunding Bond secured by the Authority's revenue bearing interest at 3.7% to 5.125% with various maturities through September 1,	\$13,205,000
Series of 2003 Refunding Bonds secured by the Authority's revenue bearing interest at 4.65% with various maturities through September 1, 2026.	8,225,000
Series of 2004 Refunding Bonds secured by the Authority's revenue bearing interest at 2.00% to 4.25% with various maturities through September 1,	<u>9,385,000</u>
Outstanding Principal at December 31, 2004	30,815,000
Less: Original Issue Discount	(159,540)
Less: Deferred Amount of Refunding	(1,461,180)
Less: Current Maturities	<u>(880,000)</u>
Total Long-Term Portion	<u><u>\$28,314,280</u></u>

The following summarizes the maturities due subsequent to December 31, 2004, for future debt obligation payments, including \$19,866,553 of interest.

2005	\$2,296,930
2006	2,307,305
2007	2,300,905
2008	2,298,560
2009	2,302,274
Thereafter	<u>39,175,579</u>
	<u><u>\$50,681,553</u></u>

During fiscal year ended December 31, 1998, the Authority defeased the Series of 1995 notes by placing a portion of the proceeds of the Series of 1998 bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As of December 31, 2004, \$8,390,000 of the Series of 1995 bonds are outstanding and are considered defeased.

**Erie Sewer Authority**

*Activities* - The Authority owns the municipal sewer systems and sewage treatment works in the City of Erie, which are operated by the City under lease from the Authority.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Basis of Accounting* - The accompanying financial information had been prepared on the accrual basis of accounting. Under this method revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*Deposits and Investments* - The Authority's investments are categorized into three categories of credit risk.

Category 1 includes bank balances insured or collateralized with securities held by the entity or its agent in the Authority's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the Authority's name.

At December 31, 2004, all of the investment balances were in Category 1.

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

Disclosures regarding deposits and investments:	
Deposits	\$12,700,694
Investments	<u>7,520,464</u>
Total	<u><u>\$20,221,158</u></u>
Balance Sheet Amounts:	
Cash and cash equivalents	
Unrestricted	\$21,768
Restricted	<u>12,678,926</u>
Total cash and cash equivalents	<u><u>12,700,694</u></u>
Investments:	
Restricted	<u>7,520,464</u>
Total investments	<u><u>7,520,464</u></u>
Total	<u><u>\$20,221,158</u></u>

*Investment in Facilities* - The Authority has acquired from the City of Erie its plant, equipment, and facilities (including certain connecting sewers and mains) used in connection with the sewage collection system of the City. Building and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. These facilities are leased under a lease agreement, which is fully described on page 79.

*Long-Term Debt* - The Erie Sewer Authority has entered into the following debt agreements:

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

Sewer Revenue Bonds, Series 2002, bearing interest ranging from 2.0% to	\$4,625,000
Sewer Revenue Bonds, Series A and B of 2001, bearing interest ranging from 2.25% to 5.5%	20,434,734
Sewer Revenue Bonds, Series of 2001, bearing interest ranging from 3.0% to 5.125%	13,715,000
Sewer Revenue Bonds, Series of 1999, bearing interest ranging from 3.0% to 4.95%	21,400,000
Note Payable with the Pennsylvania Infrastructure Investement Authority (Pennvest) secured by a guarantee agreement with the Authority and the City of Erie, bearing interest at 2.905% through February 1, 2010	935,640
Note Payable with the Pennsylvania Infrastructure Investement Authority (Pennvest) secured by a guarantee agreement with the Authority and the City of Erie, bearing interest ranging from 1.453 to 2.905% through January 1, 2008	<u>421,861</u>
Outstanding Principal at December 31, 2004	61,532,235
Less: Current Maturities	<u>(2,255,259)</u>
Total Long-Term Portion	<u><u>\$59,276,976</u></u>

The following summarizes the maturities due subsequent to December 31, 2004 for outstanding indebtedness of the Authority, including \$17,075,266 of interest:

2005	\$2,255,259
2006	2,339,251
2007	2,428,487
2008	2,365,805
2009	2,466,275
Thereafter	<u>66,752,424</u>
	<u><u>\$78,607,501</u></u>

The total principal outstanding as reported on the Combined Balance Sheet at December 31, 2004 is net of \$2,107,725 of unamortized cost of advanced refunding relating to the Series A and B of 2001, Series of 2001, and Series of 1999 bonds.

## **NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

### Sewer Revenue Bonds, Series of 2000

The Sewer Revenue Bonds, Series of 2000, in the principal amount of \$12,970,000, were issued on June 15, 2000 to finance various sewer projects, fund a Debt Service Reserve Fund and pay the costs of issuing the bonds. The 2000 Bonds were refunded by the Sewer Revenue Bonds, Series of 2001. The principal and interest payable on 2000 Bonds by the escrow agent at December 31, 2004 was \$12,615,000, and \$4,492,528, respectively.

### Sewer Revenue Bonds, Series A and B of 1998

The Sewer Revenue Bonds, Series A and B of 1998, in the principal amount of \$18,465,000, were issued on June 15, 1998 to refund the Sewer Revenue Bonds, Series of 1995, construct new relief sewer lines, fund the interest on the bonds to December 31, 1998, fund a Debt Service Fund) and pay the costs of issuing the bonds. The 1998 Bonds were refunded by the Sewer Revenue Bonds, Series A and B of 2001. The principal and interest payable on Series A and B of 1998 Bonds by the escrow agent at December 31, 2004 was \$16,640,000, and \$9,844,516, respectively.

### Sewer Revenue Bonds, Series of 1997

The Sewer Revenue Bonds, Series of 1997, in the principal amount of \$17,500,000, were issued on April 15, 1997 to design and construct capital improvements to the waste water treatment plant including an outfall relief sewer, headworks and an overflow relief facility, fund the interest on the bonds to December 1, 1997, fund a Debt Service Reserve Fund and pay the costs of issuing the bonds. The 1997 Bonds were refunded by the Sewer Revenue Bonds, Series of 1999. The principal and interest payable on 1997 Bonds by the escrow agent at December 31, 2004 was \$13,285,000, and \$5,376,554, respectively.

### Sewer Revenue Bonds, Series of 1996

The Sewer Revenue Bonds, Series of 1996, in the principal amount of \$10,000,000, were issued on April 15, 1996 to design and construct capital improvements to the waste water treatment plant, fund the interest on the bonds to December 1, 1996, fund a Bond Reserve Fund and pay the costs of issuing the bonds. The 1996 Bonds were refunded by the Sewer Revenue Bonds, Series of 1999. These bonds have been fully redeemed.

*Commitments and Contingencies* - During the year ended December 31, 2002, the Authority received notice that Mendon Pipeline Inc. had filed a suit against the Authority concerning a construction contract that resulted in Mendon Pipeline's removal of asbestos covered steam pipe from a project site. During the year ended December 31, 2004 the Authority paid \$75,000 to Mendon Pipeline Inc. This amount was included in project costs in the financial statements.

**NOTE C – DETAIL NOTES - ALL FUNDS (continued)**

*Removal of Abandoned Oil Pipelines - Relief Outfall Construction Project* - During the year ended December 31, 1998, the Authority incurred expenses of approximately \$252,325 to remove abandoned oil pipelines from the project site. The Authority preceded in negotiations with prior property owners to recover some of the expenses. The Authority received \$10,000 settlement during the year ended December 31, 2004. This amount is shown as other income in the financial statements.

**City of Erie, Pennsylvania  
Nonmajor Governmental Funds  
Combining Financial Statements**

**Special Revenue Funds**

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**BUDAG Revolving Account** – monies derived through repayments and interest from the federal funded Bayfront Development Action Grant, to be used for projects within the bayfront area upon approval by HUD and the City of Erie.

**Capital Projects Funds**

The Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

**Paving and Sewer Revolving Fund** – to account for public improvements financed by assessments levied against the benefited property and state reimbursement.

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**December 31, 2004**

	<i>Special Revenue</i>	<i>Capital Projects</i>	
	<i>BUDAG Revolving Account</i>	<i>Paving and Sewer Revolving Fund</i>	<i>Total</i>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 271,849	\$ 426,692	\$ 698,541
Receivables (net of allowance for uncollectibles):			-
Liens	-	61,520	61,520
Notes	194,797	-	194,797
Notes Receivable, net of current obligation	1,116,765	-	1,116,765
Total Assets	<u>\$ 1,583,411</u>	<u>\$ 488,212</u>	<u>\$ 2,071,623</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 0	\$ 0	\$ 0
Deferred Revenue	-	61,520	61,520
Other Liabilities	-	-	-
Total Liabilities	<u>0</u>	<u>61,520</u>	<u>61,520</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	\$ 0	\$ 0	\$ 0
Noncurrent Notes Receivable	1,116,765	-	1,116,765
Unreserved:			
Designated for Endowment Principal	-	-	-
Undesignated	466,646	426,692	893,338
Total Fund Balances	<u>1,583,411</u>	<u>426,692</u>	<u>2,010,103</u>
Total Liabilities and Fund Equity	<u>\$ 1,583,411</u>	<u>\$ 488,212</u>	<u>\$ 2,071,623</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the year ended December 31, 2004**

	<i>Special Revenue</i>	<i>Capital Projects</i>	
	<i>BUDAG</i>	<i>Paving and</i>	<i>Total Non-Major</i>
	<i>Revolving</i>	<i>Sewer Revolving</i>	<i>Governmental</i>
	<i>Account</i>	<i>Fund</i>	<i>Funds</i>
<b>REVENUES</b>			
Taxes	\$ 0	\$ 0	\$ 0
Intergovernmental	55,297	-	55,297
Interest Earnings	22,621	6,682	29,303
Miscellaneous	-	-	-
Total Revenues	<u>77,918</u>	<u>6,682</u>	<u>84,600</u>
<b>EXPENDITURES</b>			
Current:			
Capital Outlay	-	54,246	54,246
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>-</u>	<u>54,246</u>	<u>54,246</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>77,918</u>	<u>(47,564)</u>	<u>30,354</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Operating Transfers In	-	-	-
Operating Transfers (Out)	(126,762)	-	(126,762)
Proceeds from General Long-Term Debt	-	-	-
Total Other Financing Sources and (Uses)	<u>(126,762)</u>	<u>-</u>	<u>(126,762)</u>
Net Change in Fund Balance	(48,844)	(47,564)	(96,408)
Fund Balance, January 1, 2004	1,632,255	474,256	2,106,511
Prior Period Adjustments	-	-	-
Fund Balance, December 31, 2004	<u>\$ 1,583,411</u>	<u>\$ 426,692</u>	<u>\$ 2,010,103</u>

**City of Erie, Pennsylvania  
Fiduciary Funds  
Combining Financial Statements**

**Pension Trust Funds**

**Deferred Compensation** – to account for assets held in trust that have been contributed to the plan by the City through a matching agreement (Section IRC 401(a) plan).

**Officers' and Employees' Retirement Association ("Officers' and Employees'")** – to account for monies to cover employees in various departments (excluding uniformed policemen and firemen).

**Police Relief and Pension Association ("Police")** – to account for monies to cover uniformed employees of the Bureau of Police.

**Firemens' Pension Fund ("Firemens'")** – to account for monies to cover all members of the Bureau of Fire except the employees in radio and communication center.

**Agency Funds**

**Traffic Court State and County Fines Account** – to account for traffic violations fines collected on behalf of state and county governments.

**Traffic Court Security Bond Account** – to account for monies posted by traffic court defendants pending a hearing.

**Rent Withholding Account** – to account for rental payments from tenants whose dwellings are ruled unfit and/or unsafe.

**Cable TV Security Deposit Account** – to account for a refundable deposit from the cable TV company.

**Unclaimed Money Account** – to account for unclaimed monies.

**Land Lighthouse Security Deposit** – to account for a refundable deposit from Land Lighthouse.

**Property Tax Account** – to account for undistributed payments of real estate and personal property tax for the City of Erie, the Erie School District and the County of Erie.

**Income Tax Fund** – to account for the 1.15% Earned Income Tax collected for the City of Erie, the Erie School District, and other Communities.

**Occupational Privilege Tax Fund** – to account for the \$10 Occupation Privilege Tax collected on behalf of the City of Erie and the Erie School District.

**Community Service Fund** – to account for payroll deductions for charitable contributions.

**Fire Insurance Escrow** – to account for monies received for fire insurance premiums.

**Dickson Tavern Renovations** – to account for a refundable deposit from Dickson Tavern.

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2004**

<b>ASSETS</b>	<i>Deferred Compensation</i>	<i>Officer's and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
Cash and Cash Equivalents	\$0	\$1,052,571	\$1,678,058	\$2,162,020	\$4,892,649
Investments, at Fair Value					
Common Stocks	-	24,180,497	44,254,132	19,301,946	87,736,575
United States Government and Agency Obligation	-	12,989,160	14,187,051	10,839,826	38,016,037
Real estate investment trusts	-	1,652,292			1,652,292
Corporate Obligations	-	9,226,137	10,773,280	7,751,347	27,750,764
Registered Investment Companies - Mutual Funds	18,479,824	12,327,833		12,457,369	43,265,026
Short-Term Investments	-	1,109,100		-	1,109,100
Receivables (Net of Allowance for Uncollectibles):					-
Other	-	239,926	84,528	-	324,454
Accrued Investment Income	-	291,156	334,989	250,780	876,925
Total Assets	<u>\$18,479,824</u>	<u>\$63,068,672</u>	<u>\$71,312,038</u>	<u>\$52,763,288</u>	<u>\$205,623,822</u>
<b>LIABILITIES</b>					
Accounts Payable			\$6,100	\$13,450	\$19,550
Due to Other Governments				289,568	289,568
Total Liabilities	-	-	6,100	303,018	309,118
<b>NET ASSETS</b>					
Held in Trust for Employees' Pension Benefits	<u>18,479,824</u>	<u>63,068,672</u>	<u>71,305,938</u>	<u>52,460,270</u>	<u>205,314,704</u>
	<u>\$18,479,824</u>	<u>\$63,068,672</u>	<u>\$71,312,038</u>	<u>\$52,763,288</u>	<u>\$205,623,822</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the year ended December 31, 2004**

<b>ADDITIONS TO NET ASSETS</b>	<i>Deferred Compensation</i>	<i>Officers' and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
Contributions					
Employer	\$445,857	\$1,429,015	\$657,982	\$1,073,522	\$3,606,376
City of Erie Water Authority	-	246,868	-	-	246,868
Plan Members	2,864,665	1,215,133	585,879	511,368	5,177,045
Total Contributions	<u>3,310,522</u>	<u>2,891,016</u>	<u>1,243,861</u>	<u>1,584,890</u>	<u>9,030,289</u>
Investment Earnings					
Net Appreciation in Fair Value of Investments	1,315,687	2,420,279	2,916,190	3,212,094	9,864,250
Interest and Dividends	98,344	1,963,619	2,797,289	1,885,403	6,744,655
Investment Class Action Settlements	-	-	-	16,829	16,829
Less: Investment Expenses	77,349	155,732	253,350	194,611	681,042
Total Investment Earnings	<u>1,336,682</u>	<u>4,228,166</u>	<u>5,460,129</u>	<u>4,919,715</u>	<u>15,944,692</u>
Total Additions To Net Assets	<u>4,647,204</u>	<u>7,119,182</u>	<u>6,703,990</u>	<u>6,504,605</u>	<u>24,974,981</u>
<b>DEDUCTIONS FROM NET ASSETS</b>					
Benefits Paid	1,519,803	4,229,178	7,402,599	5,912,703	19,064,283
Participant Refunds	-	187,887	8,546	-	196,433
Administrative Expenses	-	83,147	77,077	51,762	211,986
Total Deductions From Net Assets	<u>1,519,803</u>	<u>4,500,212</u>	<u>7,488,222</u>	<u>5,964,465</u>	<u>19,472,702</u>
Net Increase to Net Assets	3,127,401	2,618,970	(784,232)	540,140	5,502,279
<b>NET ASSETS HELD IN TRUST</b>					
Net Assets, January 1, 2004	<u>15,352,423</u>	<u>60,449,702</u>	<u>72,090,170</u>	<u>51,920,130</u>	<u>199,812,425</u>
Net Assets, December 31, 2004	<u>\$18,479,824</u>	<u>\$63,068,672</u>	<u>\$71,305,938</u>	<u>\$52,460,270</u>	<u>\$205,314,704</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**For the year ended December 31, 2004**

	<i>Balance at January 1, 2004</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2004</i>
<b>TRAFFIC COURT STATE AND COUNTY FINES</b>				
Assets				
Cash and Cash Equivalents	\$16	\$35	\$0	\$51
Liabilities				
Accounts Payable	\$16	\$35	\$0	\$51
<b>TRAFFIC COURT SECURITY BONDS</b>				
Assets				
Cash and Cash Equivalents	\$1,665	\$3,473	\$4,158	\$980
Liabilities				
Accounts Payable	\$1,665	\$3,473	\$4,158	\$980
<b>CABLE TELEVISION SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$25,000	\$0	\$0	\$25,000
Liabilities				
Accounts Payable	\$25,000	\$0	\$0	\$25,000
<b>UNCLAIMED MONIES</b>				
Assets				
Cash and Cash Equivalents	\$7,107	\$1,435	\$1,960	\$6,582
Liabilities				
Accounts Payable	\$7,107	\$1,435	\$1,960	\$6,582
<b>LAND LIGHTHOUSE SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$500	\$0	\$0	\$500
Liabilities				
Accounts Payable	\$500	\$0	\$0	\$500
<b>PROPERTY TAX</b>				
Assets				
Cash and Cash Equivalents	\$684,818	\$72,203,811	\$71,906,175	\$982,455
Liabilities				
Due to Other Governments	\$684,818	\$72,203,811	\$71,906,175	\$982,455

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)**  
**For the year ended December 31, 2004**

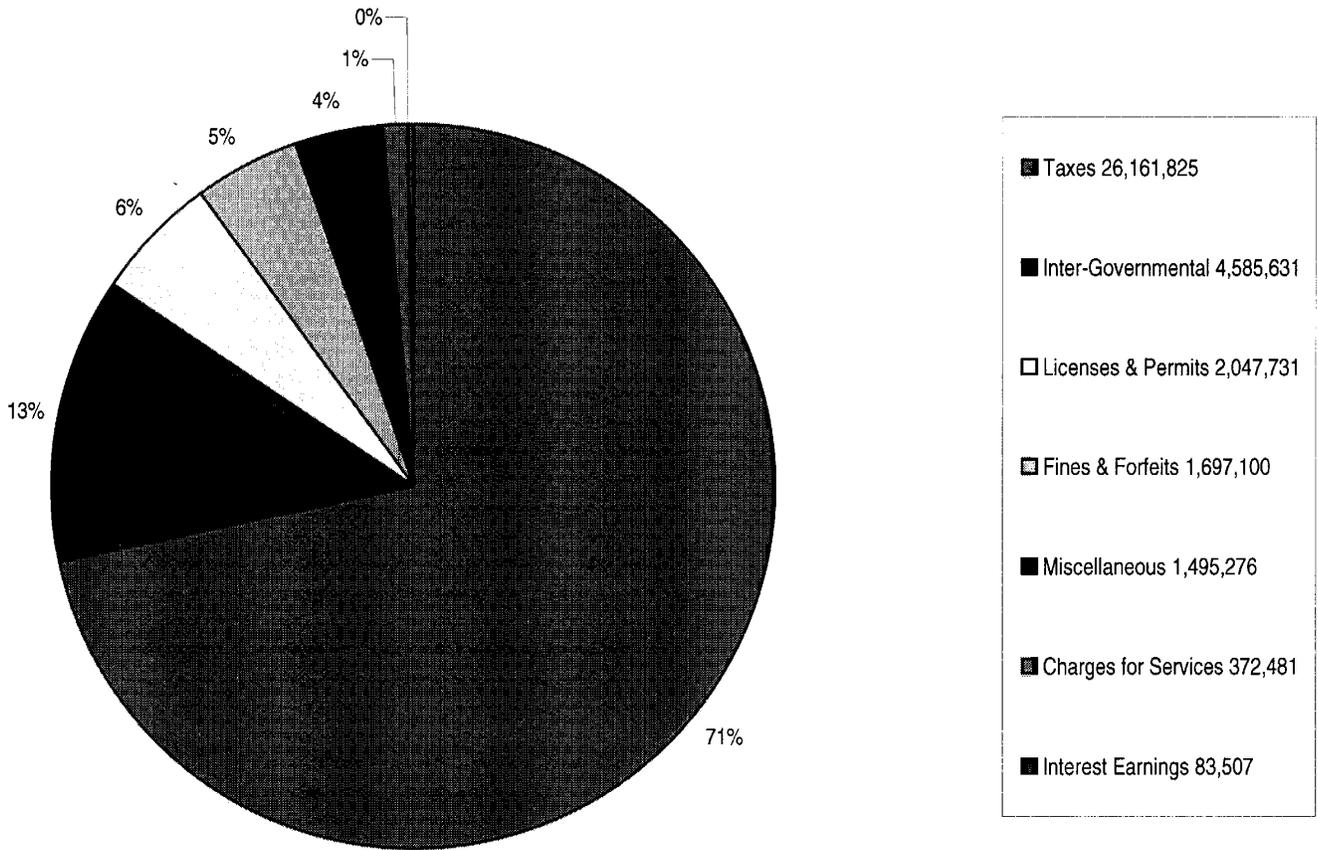
	<i>Balance at January 1, 2004</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2004</i>
<b>EARNED INCOME TAX FUND</b>				
Assets				
Cash and Cash Equivalents	\$5,323,273	\$25,661,862	\$27,448,643	\$3,536,492
Liabilities				
Due to Other Governments	\$5,323,273	\$25,661,862	\$27,448,643	\$3,536,492
<b>OCCUPATIONAL PRIVILEGE TAX FUND</b>				
Assets				
Cash and Cash Equivalents	\$46,539	\$648,887	\$662,111	\$33,315
Liabilities				
Due to Other Governments	\$46,539	\$648,887	\$662,111	\$33,315
<b>COMMUNITY SERVICES</b>				
Assets				
Cash and Cash Equivalents	\$12,191	\$21,235	\$19,760	\$13,666
Liabilities				
Accounts Payable	\$12,191	\$21,235	\$19,760	\$13,666
<b>FIRE INSURANCE ESCROW</b>				
Assets				
Cash and Cash Equivalents	\$198,084	\$62,412	\$48,571	\$211,925
Liabilities				
Accounts Payable	\$198,084	\$62,412	\$48,571	\$211,925
<b>DICKSON TAVERN RENOVATION</b>				
Assets				
Cash and Cash Equivalents	\$500	\$0	\$0	\$500
Liabilities				
Accounts Payable	\$500	\$0	\$0	\$500
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets	\$6,299,693	\$98,603,152	\$100,091,378	\$4,811,466
Cash and Cash Equivalents				
Liabilities				
Due to Other Governments	\$6,054,630	\$98,514,561	\$100,016,929	\$4,552,262
Accounts Payable	245,063	88,591	74,449	259,204
Total Liabilities	\$6,299,693	\$98,603,152	\$100,091,378	\$4,811,466



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# CITY OF ERIE, PENNSYLVANIA

General Fund  
Revenues by Source  
December 31, 2004



# CITY OF ERIE, PENNSYLVANIA

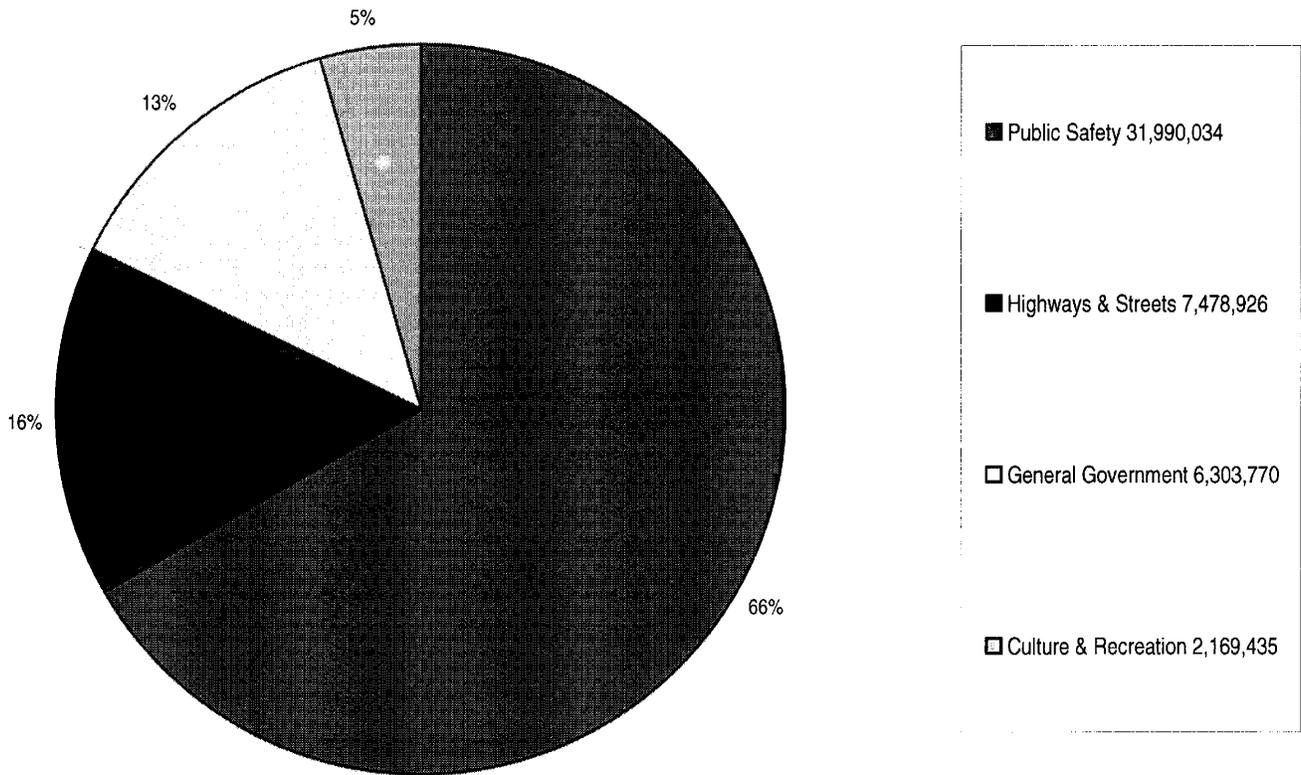
General Fund  
Revenues by Source  
Last Ten Years

Year	Taxes	Licenses and Permits	Inter- Governmental	Charges for Services	Fines and Forfeits	Interest Earnings	Misc	Total
1995	28,124,592	1,450,482	4,297,030	653,879	1,402,940	339,697	3,956,583	40,225,203
1996	27,864,286	1,403,364	3,985,300	708,353	1,272,147	340,269	3,967,010	39,540,729
1997	27,712,258	1,598,494	3,880,809	634,659	1,350,281	558,646	2,922,829	38,657,976
1998	27,055,740	1,471,123	4,193,744	494,022	1,403,840	658,167	3,116,316	38,392,952
1999	24,167,931	1,418,715	3,904,094	422,099	1,527,122	471,791	3,016,884	34,928,636
2000	23,927,711	1,574,828	4,832,995	320,904	1,562,883	985,467	3,215,325	36,420,113
2001	23,413,258	1,727,467	2,952,889	277,473	1,632,365	960,627	3,957,985	34,922,064
2002	27,585,329	1,421,350	3,014,071	280,102	1,558,321	771,782	3,495,962	38,126,916
2003	27,080,498	1,817,952	4,297,595	246,161	1,696,597	145,745	3,072,125	38,356,673
2004	26,161,825 *	2,047,731	4,585,631	372,481	1,697,100	83,507	1,495,276	36,443,551

\* Includes PILOT payments

# CITY OF ERIE, PENNSYLVANIA

General Fund  
Expenditures by Function  
December 31, 2004



# CITY OF ERIE, PENNSYLVANIA

General Fund  
Expenditures by Function  
Last Ten Years

<u>Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Highways and Streets</u>	<u>Sanitation</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Inter- Governmental</u>	<u>Total</u>
1995	4,900,550	28,181,500	6,161,531	0	1,770,143	0	418,000	41,431,724
1996	4,730,652	29,669,217	6,609,021	0	1,824,672	1,169	453,000	43,287,731
1997	4,443,112	29,753,925	5,752,611	0	2,101,892	14,129	393,500	42,459,169
1998	5,308,983	26,070,808	5,630,063	0	2,198,596	142,820	0	39,351,270
1999	5,080,460	27,332,050	5,893,125	0	2,296,006	0	0	40,601,641
2000	5,433,716	26,478,634	6,060,875	0	2,686,280	230,447	0	40,889,952
2001	5,676,251	26,840,562	6,061,168	0	2,375,331	0	0	40,953,312
2002	5,865,518	28,342,905	6,607,881	0	2,507,322	0	0	43,323,626
2003	6,237,663	32,783,215	7,245,578	0	2,042,400	0	0	48,308,856
2004	6,303,770	31,990,034	7,478,926	0	2,169,435	0	0	47,942,165

# CITY OF ERIE, PENNSYLVANIA

## Property Tax Levies and Collections

Last Ten Years

Year	Total Tax Levy(1)	Current Tax Collections	Percent of Levy Collected(2)	Delinquent Tax Collections	Total Tax Collections(3)	Total Collections As Percent Of Current Levy	Outstanding Delinquent Taxes(4)	Outstanding Delinquent Taxes As Percent of Current Levy
1995	22,862,066	21,314,859	93.2	1,431,989	22,746,848	99.0	1,390,857	7.0
1996	22,841,089	21,337,311	93.4	1,361,590	22,698,901	99.0	1,476,504	6.1
1997	22,848,411	21,342,031	93.4	1,515,280	22,857,311	99.4	1,408,202	6.5
1998	22,934,669	21,447,001	93.5	1,347,321	22,794,322	100.0	1,448,881	6.2
1999	22,825,180	21,411,974	93.8	1,266,742	22,678,717	99.4	1,440,473	6.3
2000	23,078,672	21,451,489	92.9	1,299,909	22,751,397	98.6	1,587,821	6.9
2001	23,356,832	21,580,419	92.4	1,320,624	22,901,043	98.0	1,728,399	7.4
2002	23,402,579	21,504,451	91.9	1,641,861	23,146,312	98.9	1,855,452	7.9
2003	25,450,401	22,805,361	89.6	1,512,264	24,317,625	95.5	2,231,768	8.8
2004	24,441,267	22,448,854	91.8	1,739,690	24,188,544	99.0	1,870,452	7.7

(1) Gross tax levy, net of LERTA, credits, debits, discounts and adjustments.

(2) Current year.

(3) Current and prior years.

(4) Represents delinquent taxes due at the end of the year on taxes levied for that year.

Source: City Treasurer.

Note: 2% rebate until March 31.

## CITY OF ERIE, PENNSYLVANIA

Assessed and Estimated Actual

Value of Taxable Property

Last Ten Years

Year	Net Assessed Valuation (1)	Estimated Actual Value (2)	Assessed Valuation As Percent of Market	Tax Title Exempt Property
1995	535,890,184	1,486,402,400	36.1	256,459,100
1996	536,387,641	1,587,587,000	33.8	273,475,070
1997	534,919,470	1,584,229,000	33.8	273,421,080
1998	538,955,180	1,731,610,400	31.1	278,574,600
1999	538,638,945	1,744,358,000	30.9	280,275,080
2000	544,836,176	1,843,165,600	29.6	281,134,110
2001	551,472,128	1,884,617,600	29.3	280,581,760
2002	552,342,433	1,972,153,100	28.0	280,868,600
2003	2,671,923,745 (3)	2,671,923,745	100.0	890,368,010
2004	2,559,872,931	2,559,872,931	100.0	982,036,094 (4)

(1) Net of debits and credits.

(2) Source: State Tax Equalization Board.

(3) Re- Assessed at Market Value.

(4) Includes LERTA/RIO exonerations

# CITY OF ERIE, PENNSYLVANIA

## Property Tax Rates - Direct and Overlapping Governments

Last Ten Years

Year	Per \$1000 of Assessed Value			Total
	City(1)	School District (2)	County(1)	
1995	43.23	51.00	45.50	139.73
1996	43.23	51.00	46.00	140.23
1997	43.23	54.00	50.00	147.23
1998	43.23	56.00	51.00	150.23
1999	42.98	56.00	51.00	149.98
2000	42.98	58.50	53.00	154.48
2001	42.98	63.30	53.00	159.28
2002	42.98	67.15	54.25	164.38
2003	9.91	18.30	4.60	32.81
2004	9.71	16.41	4.68	30.81

(1) Calculated on 100% of assessed value.

(2) Calculated on 89.7% of assessed value.(16.419)

# CITY OF ERIE, PENNSYLVANIA

## Annual Requirements to Amortize Long-Term Debt

December 31, 2004

Year Ending Dec. 31	General Fund <u>General Obligation Bonds</u>	Sewer Revenue Fund <u>General Obligation Bonds</u>
2005	9,329,375	591,031
2006	9,153,281	590,700
2007	8,776,319	936,662
2008	8,812,923	892,046
2009	8,529,837	1,163,202
2010-14	40,128,912	8,388,573
2015-19	37,402,351	11,058,538
2020-24	29,040,249	9,478,077
2025-26	12,322,411	724,752
Total principal and interest	<u>163,495,658</u>	<u>33,823,581</u>
Less: Interest, other than accreted interest	<u>(29,189,179)</u>	<u>(7,598,280)</u>
Total Outstanding Liability	134,306,479	26,225,301
Less: Accreted Interest	<u>(34,860,553)</u>	<u>(7,521,198)</u>
Total General Obligation Bonds	\$ <u><u>99,445,926</u></u>	\$ <u><u>18,704,103</u></u>

# CITY OF ERIE, PENNSYLVANIA

## Computation of Legal Debt Margin

As of December 31, 2004

### Nonelectoral Debt Incurring Capacity:

Borrowing base(1)	\$	104,360,158
Percentage limitation		<u>250</u>
Net nonelectoral debt limit	\$	<u>260,900,395</u>
Less: net nonelectoral debt incurred		105,041,446
Add: current principal appropriation		<u>4,957,798</u>
Remaining nonelectoral debt incurring capacity	\$	<u><u>160,816,747</u></u>

### Nonelectoral Plus Lease Rental Debt Incurring Capacity:

Borrowing base(1)	\$	104,360,158
Percentage limitation		<u>350</u>
Net nonelectoral plus lease rental debt limit	\$	<u>365,260,553</u>
Less: net nonelectoral debt plus lease rental debt incurred		142,042,008
Add: current principal appropriation		<u>4,957,798</u>
Remaining nonelectoral plus lease rental debt incurring capacity	\$	<u><u>228,176,343</u></u>

(1)The Commonwealth of Pennsylvania has enacted the Local Government Unit Debt Act which limits debt to revenues. Revenues of the last three years are adjusted for various nonrecurring and excludable items. The average of adjusted revenues for the respective years is the borrowing base. Certain percentages are applied to the borrowing base to determine the debt limitations.

## CITY OF ERIE, PENNSYLVANIA

### Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Last Ten Years

Year	Net General Bonded Debt	Net Assessed Valuation (1)	% to Assessed Valuation	Population (2)	Net General Bonded Debt Per Capita
1995	12,015,000	535,890,184	2.24%	108,718	110.52
1996	11,535,000	536,387,641	2.15%	108,718	106.10
1997	19,910,000	534,919,470	3.72%	108,718	183.13
1998	104,285,425	538,955,180	19.35%	108,718	959.23
1999	100,808,546	538,638,945	18.72%	108,718	927.25
2000	97,256,666	544,836,176	17.85%	103,717	937.71
2001	74,744,867	551,472,128	13.55%	103,717	720.66
2002	91,879,365	552,342,433	16.63%	103,717	885.87
2003	80,722,997	2,671,923,745	3.02%	103,717	778.30
2004	99,445,926	2,559,872,931	3.88%	103,717	958.82

(1) Net of debits and credits.

(2) Sources: Bureau of Census

## CITY OF ERIE, PENNSYLVANIA

Ratio of Annual Debt Service for  
General Bonded Debt to Total General Expenditures  
Last Ten Years

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service(1)</u>	<u>Total General Expenditures</u>	<u>% of Debt Service to General Expenditures</u>
1995	455,000	604,428	1,059,428	41,431,724	2.56%
1996	480,000	574,933	1,054,933	43,287,731	2.44%
1997	535,000	542,991	1,077,991	42,459,169	2.54%
1998	915,000	988,911	1,903,911	39,351,270	4.84%
1999	3,476,880	1,503,949	4,980,829	40,601,641	12.27%
2000	3,551,880	1,180,116	4,731,996	40,889,952	11.57%
2001	3,731,880	1,000,601	4,732,481	40,953,312	11.56%
2002	4,527,717	3,837,365	8,365,082	43,323,626	19.31%
2003	4,591,937	3,929,542	8,521,479	48,308,856	17.64%
2004	4,695,500	3,552,396	8,247,896	47,942,165	17.20%

(1) Excludes loans.

# CITY OF ERIE, PENNSYLVANIA

## Computation of Direct and Overlapping Debt

December 31, 2004

	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Erie</u>	<u>Amount Applicable to City of Erie</u>
Direct Debt:			
1998 General obligation bond (A)	\$ 11,765,000	100.0 %	\$ 11,765,000
1998 General obligation bond (B)	20,691,781	100.0	20,691,781
2001 General obligation bond (A)	3,535,000	100.0	3,535,000
2001 General obligation bond (B)	8,935,000	100.0	8,935,000
2001 General obligation bond (C)	9,519,665	100.0	9,519,665
2001 General obligation bond (D)	18,495,000	100.0	18,495,000
2001 General obligation bond (E)	13,515,000	100.0	13,515,000
2001 General obligation bond (F)	11,080,000	100.0	11,080,000
2003 General obligation note	2,250,000	100.0	2,250,000
2003 General obligation term note	450,000	100.0	450,000
2004 General obligation bond (A)	7,300,000	100.0	7,300,000
2004 General obligation bond (B)	2,260,000	100.0	2,260,000
	<u>109,796,446</u>		<u>109,796,446</u>
Overlapping Debt:			
Erie School District	147,029,202	100.0%	147,029,202
Erie Sewer Authority	57,169,251	100.0%	57,169,251
Erie Parking Authority	30,815,000	75.0%	23,111,250
Erie City Water Authority	123,987,753	70.0%	86,791,427
County of Erie	45,720,000	24.6%	15,087,600
Total	<u>404,721,206</u>		<u>329,188,730</u>
Total Direct and Overlapping Debt	<u>\$ 514,517,652</u>		<u>\$ 438,985,176</u>

# CITY OF ERIE, PENNSYLVANIA

## Demographic Statistics

1800-2000

<u>Census Year</u>	<u>Population</u>	<u>% Increase (Decrease)</u>	<u>Square Miles</u>	<u>Average Density (Persons/ Square Mile)</u>
1800	81		18.9	4
1810	394	386.4 %	18.9	21
1820	635	61.2	18.9	34
1830	1,465	130.7	18.9	78
1840	3,412	132.9	18.9	181
1850	5,858	71.7	18.9	312
1860	9,419	60.8	18.9	501
1870	19,646	108.6	18.9	1,045
1880	27,737	41.2	18.9	1,475
1890	40,634	46.5	18.9	2,161
1900	57,527	41.6	18.9	3,060
1910	66,525	15.6	18.9	3,539
1920	102,093	53.5	18.9	5,430
1930	115,967	13.6	18.9	6,168
1940	116,955	0.9	18.9	6,221
1950	130,803	11.8	18.9	6,958
1960	138,440	5.8	18.9	7,325
1970	129,231	(6.7)	18.9	6,838
1980	119,123	(7.8)	18.9	6,303
1990	108,718	(8.7)	18.9	5,752
2000	103,717	(4.5)	18.9	5,488

# CITY OF ERIE, PENNSYLVANIA

## Property Values and Construction

Last Ten Years

Year	Commercial		Residential		Miscellaneous	
	Units	Value	Units	Value	Units	Value
1995	124	51,002,534	330	7,804,454	115	230,078
1996	160	35,164,903	419	8,663,135	105	146,324
1997	151	43,393,843	356	5,139,835	87	172,530
1998	168	35,756,892	375	8,023,283	122	196,280
1999	163	32,853,872	394	10,753,117	137	311,103
2000	139	42,889,561	418	7,011,168	130	419,939
2001	146	78,734,763	441	9,271,910	122	376,370
2002	134	70,605,797	432	9,267,221	135	488,885
2003	162	39,740,761	490	10,636,222	121	840,806
2004	177	29,793,590	857	13,530,285	149	678,269

Source: Department of Economic and Community Development.

# CITY OF ERIE, PENNSYLVANIA

## Financial Institution Deposits

Last Ten Years

<u>Year(1)</u>	<u>Commercial Banks</u>	<u>Savings Banks and Savings and Loan Associations</u>	<u>Credit Unions</u>	<u>Total Deposits</u>
1995	949,439,000	643,149,000	331,913,000	1,924,501,000
1996	975,829,000	645,720,000	341,075,000	1,962,624,000
1997	997,993,000	681,954,000	345,693,000	2,025,640,000
1998	1,414,158,000	642,888,000	355,954,000	2,413,000,000
1999	1,417,196,000	675,484,000	385,810,000	2,478,490,000
2000	1,479,687,000	685,149,000	397,948,000	2,562,784,000
2001	1,439,803,000	724,156,000	419,218,000	2,583,177,000
2002	1,435,504,000	769,091,000	476,219,000	2,680,814,000
2003	1,180,263,000	1,156,984,000	512,606,000	2,849,853,000
2004	1,155,444,000	1,170,086,000	530,033,000	2,855,563,000

(1) Fiscal Year Ended June 30. Pennsylvania Department of Banking.

# CITY OF ERIE, PENNSYLVANIA

Principal Taxpayers

December 31, 2004

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percent of Taxable Assessed Valuation</u>
Baldwin Brothers	\$ 37,666,770	1.47%
Erie Indemnity	30,444,000	1.19%
International Paper Company	12,650,000	0.49%
Benderson-Erie	11,495,000	0.45%
G.T.E.	11,113,000	0.43%
Central Mall Partnership	8,900,000	0.35%
McGarvey, Stephen D.	8,000,000	0.31%
Bayside Development Corporation	7,753,000	0.30%
Senior Living Services Inc.	7,574,000	0.30%
Covelli, Albert M.	6,930,000	0.27%
	<u>\$ 142,525,770</u>	<u>5.57%</u>

Source: Erie County Assessment Office.

# CITY OF ERIE, PENNSYLVANIA

Miscellaneous Statistical Data

December 31, 2004

Area in Acres:

Land	12,107.0		
Water	<u>384.0</u>	12,491.0	Acres

Square Miles:

Land	18.9		
Water	<u>0.6</u>	19.5	Square Miles

Miles of Streets:

Paved	323.1		
Unpaved	<u>0.0</u>	323.1	Miles

Miles of Sewers

440.4 Miles

Miles of Water Frontage:

Fronting Presque Isle Bay	4.0		
Fronting Lake Erie	<u>1.6</u>	5.6	Miles

Source: Department of Public Works, Property and Parks.

# CITY OF ERIE, PENNSYLVANIA

Labor Force

Last Ten Years Annual Average

(Data in Thousands)

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1995	52.4	47.8	4.6	8.2%
1996	52.3	48.3	4.0	7.7%
1997	51.1	47.1	4.0	7.9%
1998	50.3	46.9	3.4	6.8%
1999	49.9	47.1	2.8	5.6%
2000	49.4	46.7	2.8	5.6%
2001	49.2	46.0	3.2	6.5%
2002	50.5	46.5	4.0	7.9%
2003	48.8	45.4	3.5	7.1%
2004	47.3	44.3	3.0	6.3%

Source: Commonwealth of Pennsylvania, Bureau of Research and Statistics.

**CITY OF ERIE, PENNSYLVANIA**

General Fund  
Schedule of Insurance in Force  
December 31, 2004

Company	Details of Coverage	Policy Number	Policy Period		Coverage Limits	Deductible	Premium
			From	To			
Diamond State	Public Officials Liability - City of Erie	POL-B172058	1/1/2004	1/1/2005	\$1,000,000 per claim made/aggregate	\$75,000	\$57,500
Diamond State	Public Officials Liability - Erie Sewer Authority	POL-B172057	1/1/2004	1/1/2005	\$1,000,000 per claim made/aggregate	\$25,000	\$18,750
St. Paul Travelers	Public Entity Liability General liability	GP-06301499	1/1/2004	1/1/2005	<i>Separate limits</i> \$1,000,000 per occurrence/aggregate	\$25,000	\$337,917 Included
	Garagekeepers legal				\$1,000,000	\$25,000	Included
	Liquor legal liability				\$1,000,000	\$25,000	Included
	Police professional				\$1,000,000 per occurrence/aggregate	\$25,000	Included
	EMT malpractice				\$1,000,000 per occurrence/aggregate	\$25,000	Included
	Terrorism liability				\$1,000,000	\$25,000	Included
Great American	Public Entity Property	MAC-1358526	12/31/2003	12/31/2004	\$175,148,667	\$25,000	\$248,385
	Boiler & machinery				\$50,000,000	\$25,000	Included
	Inland marine floater - Contractors mobile equip				\$4,858,561 Included	\$25,000	Included
	Electronic & telecomm				Included		
	Fire truck "turnout" equip				Included		
	Fine arts (Dickson Tavern)				Included		
St. Paul Travelers	Employee Dishonesty	GP-06301499	1/1/2004	1/1/2005	\$1,000,000 per loss \$100,000 theft \$100,000 forgery	\$25,000	\$2,795
St. Paul Travelers	Automobile Fleet - Liability	GP-06301499	1/1/2004	1/1/2005	\$1,000,000 per accident		\$191,515
	Physical damage	GP-06301499	1/1/2004	1/1/2005	Actual cash value	\$1,500	Included
						Collision	Included
						\$1,500 Comprehensive	
St. Paul Travelers	Excess Liability Umbrella (excess over general, police professional & automobile liability)	GP-06301499	1/1/2004	1/1/2005	\$5,000,000 per occurrence/aggregate	\$0 - \$10,000	\$92,725

**CITY OF ERIE, PENNSYLVANIA**

General Fund

Schedule of Insurance in Force (continued)

December 31, 2004

Company	Details of Coverage	Policy Number	Policy Period		Coverage Limits	Deductible	Premium
			From	To			
Firemans Fund	Surety Bond	SLR02637705	5/2/2004	5/2/2005	Gas well at zoo		\$250
Cincinnati	Treasurer Bond	B8847184	4/30/2004	4/30/2005	\$2,000,000		\$1,875
Cincinnati	Controller Bond	B83-1031	1/1/2002	12/31/2005	\$100,000		\$958
Cincinnati	Income Tax Collector Bond	B8847170	12/29/2004	12/29/2005	\$2,000,000		\$1,875
Commonwealth of Pennsylvania	Workers Compensation		1/1/2004	12/31/2004		Self-insured with the State	
Employers Reinsurace	Excess Workers Compensation	62775902	1/1/2004	1/1/2005	\$25,000,000 per occurrence/aggregate	\$500,000	\$90,088

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