



2006
COMPREHENSIVE
ANNUAL FINANCIAL
REPORT

YEAR ENDING DECEMBER 31, 2006

CITY OF ERIE
PENNSYLVANIA

Joseph E. Sinnott, Mayor

CITY OF ERIE, PENNSYLVANIA

Comprehensive Annual Financial Report

December 31, 2006



Prepared By:

Department of Administration and Finance

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CITY OF ERIE, PENNSYLVANIA
Comprehensive Annual Financial Report

Year ended December 31, 2006

Table of Contents

INTRODUCTORY SECTION:

List of Principal Officials	1
Organizational Chart	2

FINANCIAL SECTION:

INDEPENDENT AUDITOR'S REPORT	3
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS:	

Statement

	<i>Government-wide Financial Statements:</i>	
1	Statement of Net Assets	16
	Reconciliation of the Balance Sheet to the Statement of Net Assets	17
2	Statement of Activities	18
	<i>Fund Financial Statements:</i>	
3	Balance Sheet - Governmental Funds	20
4	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
5	Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual	25
7	Statement of Net Assets - Proprietary Funds	26
8	Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	28
9	Statement of Cash Flows - Proprietary Funds	29
10	Statement of Fiduciary Net Assets	31
11	Statement of Changes in Fiduciary Net Assets	32
12	Statement of Net Assets – Component Units	33
13	Statement of Activities – Component Units	34
	Notes to Basic Financial Statements	35

REQUIRED SUPPLEMENTARY INFORMATION:

1	Combining Balance Sheet – Non-Major Governmental Funds	89
2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds.....	90
3	Combining Statement of Net Assets – Non-Major Proprietary Funds.....	91
4	Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Non-Major Proprietary Funds.....	92
5	Combining Statement of Net Assets – Fiduciary Funds.....	93
6	Combining Statement of Changes in Net Assets – Fiduciary Funds.....	94
7	Combining Statement of Changes in Assets and Liabilities - Agency Funds	95

STATISTICAL SECTION:

General Fund:

Net Asset by Component	97
Changes in Net Assets	98
Fund Balances.....	100
Changes in Fund Balances.....	101
Assessed Value and Estimated Actual Value of Taxable Property	102
Direct and Overlapping Property Tax Rates.....	103
Principal Property Tax Payers	104
Property Tax Levies and Collections.....	105
Ratios of Outstanding Debt by Type	106
Ratios of General Bonded Debt Outstanding	107
Direct and Overlapping Governmental Activities Debt	108
Computation of Legal Debt Margin	109
Demographics and Economic Statistics.....	110
Principal Employers.....	111
Full-Time City Government Employees by Function/Department	112

CITY OF ERIE, PENNSYLVANIA

Comprehensive Annual Financial Report
Year ended December 31, 2006

PRINCIPAL CITY OFFICIALS

MAYOR

Joseph E. Sinnott

CITY COUNCIL

Ruby Jenkins-Husband, President

Patrick Cappabianca

Jessica Horan-Kunco

David González

Joseph Schember

Curtus Jones, Jr.

James N. Thompson

CITY OFFICIALS

Susan E. DiVecchio City Treasurer

Casimir J. Kwitowski City Controller

Gregory Karle City Solicitor

James E. Klemm City Clerk

Ronald D. Komorek Director, Department of Administration & Finance

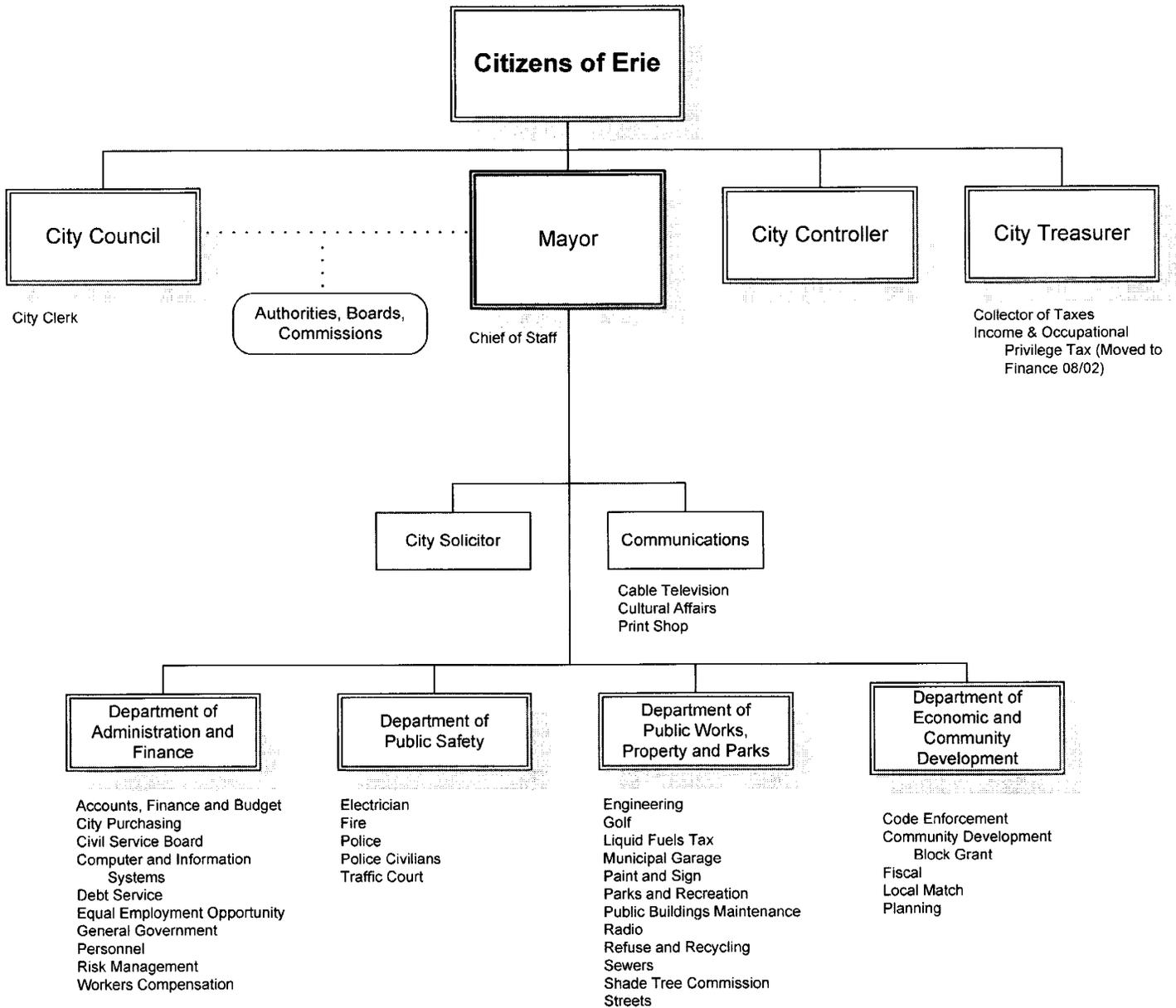
Douglas Mitchell Director, Department of Public Works, Property & Parks

Kim Green Director, Department of Economic & Community Development

CITY OF ERIE, PENNSYLVANIA

Comprehensive Annual Financial Report
Year ended December 31, 2006

ORGANIZATIONAL CHART





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, 2006, 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 reports thereon have 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, 2006, 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 5 through 14 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 introductory section, supplementary information, such as the combining and individual nonmajor fund financial statements and statistical section 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 opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections 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

November 14, 2007

**CITY OF ERIE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

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, 2006. 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 that immediately follow this section.

FINANCIAL HIGHLIGHTS

- The liabilities of the governmental activities exceeded its assets at the close of the year ending December 31, 2006 by \$6.7 million (net assets). The City has 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, \$6,242,384 in calendar year 2006, 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, 2006 by \$45 million. Of this amount, \$3.8 million may be used to meet the government's ongoing obligations to customers and creditors.
- The City of Erie's total net assets increased by \$4.7 million for the year ended December 31, 2006. The increase is a result of actual revenues in governmental and business-type activities being more than anticipated.
- As of December 31, 2006, the City of Erie's governmental funds reported combined ending fund balances of \$26.2 million, an increase of \$1.9 million. The total General Fund balance decreased \$1.3 million for the year ended December 31, 2006 and Debt Service fund increased by \$3.8 million.
- The City's total long-term debt decreased by \$5.7 million or 3.2% 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 four separate legal entities in its report – Redevelopment Authority of the City of Erie, 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 and the Capital Improvements Fund, all of which are considered to be major funds. Data from the other four 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 major enterprise funds, which include the Sewer Revenue Fund, the Water Revenue Fund and the Refuse and Recycling Fund. Data from the other proprietary fund is shown in a non-major fund presentation elsewhere in this report.

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 positive \$38.2 million (excess of total liabilities over total assets) as of December 31, 2006. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net assets are \$45 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 (70%) 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
 (amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Current and other assets	\$ 40,460	\$ 42,526	\$ 30,080	\$ 30,627	\$ 70,540	\$ 73,153
Capital assets	60,499	55,959	100,674	104,631	161,173	160,590
Total assets	<u>100,958</u>	<u>98,485</u>	<u>130,755</u>	<u>135,258</u>	<u>231,713</u>	<u>233,743</u>
Current and other liabilities	18,169	20,791	10,430	8,752	28,599	29,543
Long-term liabilities	89,537	90,706	75,294	79,902	164,831	170,608
Total liabilities	<u>107,706</u>	<u>111,497</u>	<u>85,724</u>	<u>88,654</u>	<u>193,430</u>	<u>200,151</u>
Net assets:						
Invested in capital assets, net of related debt	(29,508)	(37,948)	23,989	24,321	(5,520)	(13,627)
Restricted	10,801	10,681	17,227	19,056	28,028	29,737
Unrestricted	11,960	14,255	3,815	3,227	15,775	17,482
Total net assets	<u>\$ (6,747)</u>	<u>\$ (13,012)</u>	<u>\$ 45,030</u>	<u>\$ 46,604</u>	<u>\$ 38,283</u>	<u>\$ 33,592</u>

Table 2

City of Erie, Pennsylvania
 Changes in Net Assets
 (amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Revenues						
Program Revenues:						
Charges for services	\$ 435	\$ 532	\$ 29,334	\$ 27,386	\$ 29,769	\$ 27,918
Operating grants and contributions	26,503	24,412	74	1,835	26,578	26,247
General revenues:						
Property tax	24,809	25,912	-	-	24,809	25,912
Income tax	12,721	10,911	-	-	12,721	10,911
Other	2,193	1,841	-	-	2,193	1,841
Other general revenues	6,375	5,080	4,431	1,729	10,806	6,809
Total revenues	<u>73,037</u>	<u>68,688</u>	<u>33,840</u>	<u>30,950</u>	<u>106,877</u>	<u>99,638</u>
Expenses						
General government	21,728	21,100	-	-	21,728	21,100
Public safety	30,691	29,889	-	-	30,691	29,889
Highway and streets	5,832	9,035	-	-	5,832	9,035
Sanitation	317	69	-	-	317	69
Culture and recreation	754	3,434	-	-	754	3,434
Economic & community development	8,411	6,437	-	-	8,411	6,437
Other	216	101	-	-	216	101
Interest on long-term debt	5,157	5,330	-	-	5,157	5,330
Sewer	-	-	24,904	23,422	24,904	23,422
Water	-	-	559	560	559	560
Refuse	-	-	4,906	4,004	4,906	4,004
Golf	-	-	2,557	1,224	2,557	1,224
Total expenses	<u>73,106</u>	<u>75,395</u>	<u>32,925</u>	<u>29,210</u>	<u>106,031</u>	<u>104,605</u>
Excess (deficiency) of revenues over expenses before capital contributions and transfers	(69)	(6,707)	915	1,740	845	(4,967)
Transfers	2,520	3,715	(2,520)	(3,715)	-	-
Increase (decrease) in net assets	2,451	(2,992)	(1,606)	(1,975)	845	(4,967)
Net Assets - Beginning of Year	(9,198)	(10,020)	46,636	48,580	37,438	38,560
Net Assets - End of Year	<u>\$ (6,747)</u>	<u>\$ (13,012)</u>	<u>\$ 45,030</u>	<u>\$ 46,605</u>	<u>\$ 38,283</u>	<u>\$ 33,593</u>

Governmental Activities

Governmental activities increased the City's negative net assets by \$2.5 million for the current year, accounting for a 26% decrease in negative net assets of the City. This decrease was a result of revenues being nearly equal to expenses coupled with transfers remaining relatively the same with only a small decrease of 1.9% in transfers from the business-type activities. The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$30.7 million. The major components of public safety are police and fire. Police accounted for \$13.5 million in public safety expense of which \$12.7 million was incurred for salary and benefits. Other significant governmental expenses for the City include the Bureau of Fire at \$13.9 million of which \$13.4 million was incurred for salary and benefits.

Business-type Activities. Business-type activities decreased the City net assets by \$1.6 million for the current year, accounting for a 3.4% reduction in net assets of the City. The key element of this decrease was a \$2.5 million net transfer to the City's General Fund. The City's sewer system recorded charges for services of \$18 million and reported a net operating profit.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets as of December 31, 2006, amounted to \$161.2 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 \$1.7 million or a 1% increase over the prior year.

Table 3

City of Erie, Pennsylvania
Capital Assets (net of depreciation and impairment loss)
(amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Land	\$ 11,412	\$ 11,228	\$ 731	\$ 730	\$ 12,143	\$ 11,958
Building and improvements	2,016	2,507	3,093	4,628	5,109	7,135
Improvements other than buildings	5,133	3,641	95,270	96,342	100,403	99,983
Equipment and vehicles	9,078	8,949	1,581	1,798	10,659	10,747
Infrastructure	32,859	29,634	-	-	32,859	29,634
Capital assets, net	<u>\$ 60,499</u>	<u>\$ 55,959</u>	<u>\$ 100,674</u>	<u>\$ 103,498</u>	<u>\$ 161,173</u>	<u>\$ 159,457</u>

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

- In the General Obligation Bond Fund, \$1.2 million was spent on the installation of curb cuts and the retrofitting of older curbs. The City is required, through court order, to complete this project by 2010 and by the end of 2006; the project was 45% complete.
- On October 31, 2006, the City of Erie permanently closed the Erie Golf Course. As a result, it was determined that as of 12/31/06 the Erie Golf Course's assets were impaired and an impairment loss of \$1.4 million was recorded. The course's assets were determined to be impaired because the costs associated with operation were significant in relation to expected future utility. Also, the decision to close the course, which was based on continued losses and the inability to service debt, was not anticipated.

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 \$112 million. This amount was largely comprised of \$109 million in general obligation bonds which are backed by the assets of the City.

Table 4
City of Erie, Pennsylvania
Outstanding Debt
(amounts expressed in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
General obligation bonds (backed by the City)	\$ 89,627	\$ 92,798	\$ 19,099	\$ 19,098	\$ 108,726	\$ 111,896
Other loans	400	400	2,250	2,250	2,650	2,650
Capital leases	137	137	-	-	137	137
Total	\$ 90,164	\$ 93,335	\$ 21,349	\$ 21,348	\$ 111,513	\$ 114,683

The City's total long-term debt decreased by \$3.2 million, or 2.8%, during the current year.

Bond Ratings. The City's debt rating 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, 2006, the governmental funds of the City reported a combined fund balance of \$26.2 million. This ending balance includes a decrease in fund balance of \$1.3 million in the City's General Fund. The primary reason for the General Fund's decrease is due to revenues being less than expenses. In addition, these other changes to fund balances should be noted:

- The City's Debt Service fund balance of \$8,955,576 increased by \$3,831,532 from prior year fund balance.
- The City spent \$1,797,081 in capital outlay in the Capital Improvements and General Obligation Bond funds.
- The City's General Obligation Bond fund decreased by \$1,325,384, during the latest year thereby decreasing ending fund balance to \$3,216,371.

General Fund Budgetary Highlights

During 2006, there were no significant budget amendments for the General Fund.

For 2006, actual expenditures on a budgetary basis were \$45.1 million compared to the budget amount of \$46.2 million. The \$1.1 million positive variance was due to a concerted effort to reduce expenses.

For 2006, actual revenues on a budgetary basis were \$41.3 million as compared to the budget amount of \$43.7 million. The majority of the \$2.4 million negative variance was due to a decline in overall tax collections, intergovernmental revenue 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 \$10.5 million as of the year end, compared to the budgeted balance of zero (including \$2,538,463 in Operating Transfers In and \$47,363 in Operating Transfers Out). (*See Statement of Revenue, Expenditures and Change in Fund Balance Budget and Actual, page 25*) 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 2007 budget, such as tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$59.9 million. This represents an increase of \$4.5 million from the 2006 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for 2007 is 11.45 mills (.01145 per \$1,000 valuation). Of this tax rate 67 percent or 7.69 mills is utilized for General Fund activities. The remaining 33 percent or 3.76 mills is used for debt service. The General Fund's portion of property tax revenue for 2007 is estimated to be \$17.9 million, an increase of \$3.4 million from 2006.

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, 2006
(and fiscal year ends of component units)

	<i>Primary Government</i>			<i>Discretely Presented Component Units</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
ASSETS				
Cash and Cash Equivalents	\$ 9,814,976	\$ 6,214,519	\$ 16,029,495	\$ 3,896,446
Investments	11,574,201	2,679,278	14,253,479	791,121
Receivables (net of allowance for uncollectibles)	5,433,261	2,790,265	8,223,526	818,927
Internal Balances	480,397	(480,397)	-	-
Inventories	-	-	-	196,625
Prepaid	54,500	4,671,200	4,725,700	452,473
Restricted Assets:				
Cash and Cash Equivalents	2,113,455	10,924,311	13,037,766	3,072,631
Investments	-	3,050,863	3,050,863	6,908,583
Other	-	-	-	-
Capital Assets:				
Non-depreciable	11,411,834	731,000	12,142,834	2,199,527
Depreciable (Net)	49,087,006	99,943,434	149,030,440	50,816,476
Notes Receivable, net of current obligation	-	-	-	-
Bond Issue Costs (Net)	187,989	230,049	418,038	1,037,551
Long-Term Receivable	10,800,861	-	10,800,861	713,438
Net Pension Benefit Asset	-	-	-	333,521
Total Assets	<u>\$ 100,958,480</u>	<u>\$ 130,754,522</u>	<u>\$ 231,713,002</u>	<u>\$ 71,237,319</u>
LIABILITIES				
Accounts Payable	\$ 3,219,759	\$ 375,243	\$ 3,595,002	\$ 848,786
Accrued Liabilities	711,026	27,508	738,534	1,035,998
Accrued Interest Payable	11,448,197	3,236,338	14,684,535	473,453
Other Current Liabilities	4,736,911	-	4,736,911	579,987
Deferred Revenue	3,889,926	7,169,796	11,059,722	108,292
Due to Other Governments	-	7,402	7,402	-
Non current Liabilities				
Due Within One Year				
Compensated Absences	166,286	288,976	455,262	-
Bonds, Loans and Leases Payable	5,445,147	2,561,047	8,006,194	1,290,486
Due In More Than One Year				
Compensated Absences	2,283,750	-	2,283,750	-
Bonds, Loans and Leases Payable	73,113,754	72,057,812	145,171,566	30,367,610
Claims Liabilities	2,691,033	-	2,691,033	-
Total Liabilities	<u>107,705,789</u>	<u>85,724,122</u>	<u>193,429,911</u>	<u>34,704,612</u>
NET ASSETS				
Invested in Capital Assets (net of related debt)	(29,508,258)	23,988,617	(5,519,641)	24,689,347
Restricted for:				
Noncurrent Notes Receivable	10,800,861	-	10,800,861	-
Other	-	17,226,888	17,226,888	8,182,207
Unrestricted	11,960,088	3,814,895	15,774,983	3,661,153
Total Net Assets	<u>(6,747,309)</u>	<u>45,030,400</u>	<u>38,283,091</u>	<u>36,532,707</u>
Total Liabilities and Net Assets	<u>\$ 100,958,480</u>	<u>\$ 130,754,522</u>	<u>\$ 231,713,002</u>	<u>\$ 71,237,319</u>

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
December 31, 2006

Fund Balances -- total governmental funds \$ 26,212,358

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

Prepaid assets 54,500

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$104,177,877 and the accumulated depreciation is \$43,679,037. 60,498,840

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. 42,861

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 (78,558,901)

Accrued interest on the bonds (11,448,203)

Deferred Revenue for items not earned at year end (81,422)

Deferred Charges for debt issuance costs 187,989

Liabilities for accrued obligations (4,141,506)

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. 486,175

Net assets of governmental activities \$ (6,747,309)

CITY OF ERIE, PENNSYLVANIA
Statement of Activities
For the Year Ended December 31, 2006
(and fiscal year ends of component units)

Functions/Programs	<i>Expenses</i>	<i>Program Revenues</i>		
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
Governmental activities:				
General government	\$ 21,727,971	\$ 434,899	\$ 26,503,270	\$ -
Public safety	30,690,994	-	-	-
Highways and streets	5,831,886	-	-	-
Sanitation	317,078	-	-	-
Culture and Recreation	753,751	-	-	-
Economic and community development	8,410,937	-	-	-
Other	215,827	-	-	-
Interest on long-term debt	5,157,303	-	-	-
Total Governmental Activities	73,105,747	434,899	26,503,270	-
Business-type activities:				
Sewer	24,903,540	23,143,866	-	-
Water	558,843	-	-	-
Refuse	4,905,609	5,485,085	-	-
Other Proprietary Funds	2,557,440	705,508	74,306	-
Total Business-type Activities	32,925,432	29,334,459	74,306	-
Total Primary Government	\$ 106,031,179	\$ 29,769,358	\$ 26,577,576	\$ -
Discretely presented component units	\$ 23,818,863	\$ 10,877,161	\$ 10,580,105	\$ 1,815,903

CITY OF ERIE, PENNSYLVANIA
Statement of Activities (Continued)
For the Year Ended December 31, 2006

Functions/Programs	<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	\$ 5,210,198	\$ -	\$ 5,210,198	\$ -
Public safety	(30,690,994)	-	(30,690,994)	-
Highways and streets	(5,831,886)	-	(5,831,886)	-
Sanitation	(317,078)	-	(317,078)	-
Culture and Recreation	(753,751)	-	(753,751)	-
Economic and community development	(8,410,937)	-	(8,410,937)	-
Other	(215,827)	-	(215,827)	-
Interest on long-term debt	(5,157,303)	-	(5,157,303)	-
Total Governmental Activities	(46,167,578)	-	(46,167,578)	-
Business-type activities:				
Sewer	-	(1,759,674)	(1,759,674)	-
Water	-	(558,843)	(558,843)	-
Refuse	-	579,476	579,476	-
Other Proprietary Funds	-	(1,777,626)	(1,777,626)	-
Total Business-type Activities	-	(3,516,667)	(3,516,667)	-
Total Primary Government	\$ (46,167,578)	\$ (3,516,667)	\$ (49,684,245)	\$ -
Discretely presented component units				\$ (545,694)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes	\$ 24,808,883	\$ -	\$ 24,808,883	\$ -
Income Taxes	12,721,450	-	12,721,450	-
Other	2,193,094	-	2,193,094	-
Licenses and Permits	2,564,601	-	2,564,601	-
Fines and Forfeits	1,866,603	-	1,866,603	-
Interest Earnings	1,943,803	1,002,861	2,946,664	587,780
Lease Rental	-	2,631,440	2,631,440	-
Miscellaneous	-	796,917	796,917	21,364
Transfers	2,520,263	(2,520,263)	-	-
Total General Revenues and Transfers	48,618,697	1,910,955	50,529,652	609,144
Changes in net assets	2,451,119	(1,605,712)	845,407	63,450
Net assets - Beginning of Year (Restated)	(9,198,428)	46,636,112	37,437,684	36,469,257
Net assets - End of Year	\$ (6,747,309)	\$ 45,030,400	\$ 38,283,091	\$ 36,532,707

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2006

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
ASSETS				
Cash and Cash Equivalents	\$ 1,270,057	\$ 760,143	\$ 5,666	\$ 1,479,273
Investments	-	-	-	-
Restricted Cash and Cash Equivalents	2,113,455	-	-	-
Restricted Investments	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	-	-	-
Property Tax	1,507,453	-	-	-
Earned Income and Occupational Privilege Tax	981,934	-	-	-
Liens	60,627	-	265,695	92,210
Intergovernmental	81,591	-	262,227	136,027
Interfund	3,081,140	14,596,673	-	-
Notes	-	-	-	698,468
Other	518,337	583,542	-	-
Notes Receivable, net of current obligation	-	-	5,514,869	4,532,733
Total Assets	<u>\$ 9,614,594</u>	<u>\$ 15,940,358</u>	<u>\$ 6,048,457</u>	<u>\$ 6,938,711</u>
LIABILITIES				
Accounts Payable	\$ 133,598	\$ 312,195	\$ 262,221	\$ 36,123
Accrued Payroll and Related	582,647	-	-	-
Interfund Payable	16,318,105	2,001,387	-	-
Compensated Absences Payable	166,286	-	-	-
Deferred Revenue	2,831,214	-	265,695	655,769
Other Liabilities	65,711	4,671,200	-	-
Total Liabilities	<u>20,097,561</u>	<u>6,984,782</u>	<u>527,916</u>	<u>691,892</u>
FUND BALANCES				
Reserved:				
Encumbrances	-	-	-	-
Noncurrent Notes Receivable	-	-	5,514,869	4,532,733
Unreserved:				
Designated for Endowment Principal	-	-	-	-
Undesignated (Deficit)	(10,482,967)	8,955,576	5,672	1,714,086
Total Fund Balances	<u>(10,482,967)</u>	<u>8,955,576</u>	<u>5,520,541</u>	<u>6,246,819</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 9,614,594</u>	<u>\$ 15,940,358</u>	<u>\$ 6,048,457</u>	<u>\$ 6,938,711</u>

CITY OF ERIE, PENNSYLVANIA
Balance Sheet (Continued)
Governmental Funds
December 31, 2006

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
ASSETS			
Cash and Cash Equivalents	\$ 192,577	\$ 5,609,977	\$ 9,317,693
Investments	8,362,700	-	8,362,700
Restricted Cash and Cash Equivalents	-	-	2,113,455
Restricted Investments	-	-	-
Receivables (net of allowance for uncollectibles):			
Property Tax	-	-	1,507,453
Earned Income and Occupational Privilege Tax	-	-	981,934
Liens	-	55,823	474,355
Intergovernmental	-	-	479,845
Interfund	1,543,312	-	19,221,125
Notes	-	130,485	828,953
Other	-	-	1,101,879
Notes Receivable, net of current obligation	-	753,259	10,800,861
Total Assets	<u>\$ 10,098,589</u>	<u>\$ 6,549,544</u>	<u>\$ 55,190,253</u>
LIABILITIES			
Accounts Payable	\$ 502,387	\$ 92,703	\$ 1,339,227
Accrued Payroll and Related	-	-	582,647
Interfund Payable	-	24,831	18,344,323
Compensated Absences Payable	-	-	166,286
Deferred Revenue	-	55,823	3,808,501
Other Liabilities	-	-	4,736,911
Accrued Interest Payable	-	-	-
Total Liabilities	<u>502,387</u>	<u>173,357</u>	<u>28,977,895</u>
FUND BALANCES			
Reserved:			
Encumbrances	-	-	-
Noncurrent Notes Receivable	-	753,259	10,800,861
Unreserved:			
Designated for Endowment Principal	7,750,000	-	7,750,000
Undesignated (Deficit)	1,846,202	5,622,928	7,661,497
Total Fund Balances	<u>9,596,202</u>	<u>6,376,187</u>	<u>26,212,358</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 10,098,589</u>	<u>\$ 6,549,544</u>	<u>\$ 55,190,253</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
REVENUES				
Taxes	\$ 28,311,206	\$ 13,046,860	\$ -	\$ -
Licenses and Permits	2,564,601	-	-	-
Intergovernmental	5,428,219	-	6,264,780	1,799,083
Charges for Services	434,899	-	-	-
Fines and Forfeits	1,866,603	-	-	-
Interest Earnings	562,662	29,662	82,191	207,962
Payment in Lieu of Taxes	597,283	-	-	-
Miscellaneous	1,489,718	2,200	19,040	-
Total Revenues	<u>41,255,191</u>	<u>13,078,722</u>	<u>6,366,011</u>	<u>2,007,045</u>
EXPENDITURES				
Current:				
General Government	6,438,389	9,077	-	-
Public Safety	30,461,797	-	9,402	547,052
Highways and Streets	7,069,577	-	-	-
Sanitation	-	-	-	351,382
Culture and Recreation	1,087,937	-	75,445	310,149
Economic and Community Development	-	-	6,391,169	424,266
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	5,700,324	-	-
Interest	-	3,537,789	-	-
Total Expenditures	<u>45,057,700</u>	<u>9,247,190</u>	<u>6,476,016</u>	<u>1,632,849</u>
Deficiency of Revenues Over Expenditures	<u>(3,802,509)</u>	<u>3,831,532</u>	<u>(110,005)</u>	<u>374,196</u>
OTHER FINANCING SOURCES AND (USES)				
Operating Transfers In	2,520,263	-	-	94,384
Operating Transfers (Out)	(25,000)	-	-	(27,228)
Total Other Financing Sources And (Uses)	<u>2,495,263</u>	<u>-</u>	<u>-</u>	<u>67,156</u>
Net Change in Fund Balance	<u>(1,307,246)</u>	<u>3,831,532</u>	<u>(110,005)</u>	<u>441,352</u>
Fund Balance, January 1, 2006	(12,719,123)	5,124,044	5,360,546	5,805,467
Prior Period Adjustments	3,543,402	-	270,000	-
Fund Balance (Deficit), December 31, 2006	<u>\$ (10,482,967)</u>	<u>\$ 8,955,576</u>	<u>\$ 5,520,541</u>	<u>\$ 6,246,819</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended December 31, 2006

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
REVENUES			
Taxes	\$ -	\$ -	\$ 41,358,066
Licenses and Permits	-	-	2,564,601
Intergovernmental	-	1,984,844	15,476,926
Charges for Services	-	-	434,899
Fines and Forfeits	-	-	1,866,603
Interest Earnings	534,506	371,302	1,788,285
Payment in Lieu of Taxes	-	-	597,283
Miscellaneous	54,374	5,041	1,570,373
Total Revenues	<u>588,880</u>	<u>2,361,187</u>	<u>65,657,036</u>
EXPENDITURES			
Current:			
General Government	-	-	6,447,466
Public Safety	-	-	31,018,251
Highways and Streets	-	1,428,217	8,497,794
Sanitation	-	-	351,382
Culture and Recreation	-	-	1,473,531
Economic and Community Development	500,000	124,129	7,439,564
Capital Outlay	97,085	1,699,996	1,797,081
Debt Service:			
Principal	-	-	5,700,324
Interest	-	-	3,537,789
Total Expenditures	<u>597,085</u>	<u>3,252,342</u>	<u>66,263,182</u>
Deficiency of Revenues Over Expenditures	<u>(8,205)</u>	<u>(891,155)</u>	<u>(606,146)</u>
OTHER FINANCING SOURCES AND (USES)			
Operating Transfers In	-	-	2,614,647
Operating Transfers (Out)	-	-	(52,228)
Total Other Financing Sources And (Uses)	<u>-</u>	<u>-</u>	<u>2,562,419</u>
Net Change in Fund Balance	<u>(8,205)</u>	<u>(891,155)</u>	<u>1,956,273</u>
Fund Balance (Deficit), January 1, 2006	9,604,407	7,267,342	20,442,683
Prior Period Adjustments	-	-	3,813,402
Fund Balance (Deficit), December 31, 2006	<u>\$ 9,596,202</u>	<u>\$ 6,376,187</u>	<u>\$ 26,212,358</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, 2006

Net change in fund balances – total governmental funds	\$ 1,956,273
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.	4,539,249
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.	5,669,747
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.	(4,596,421)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	16,654
Real estate tax revenues reported in the statement of activities that do not provide current financial resources and, therefore are not reported as revenue in the governmental funds.	(4,257,316)
The revenue and expenses of the internal service fund is reported with the governmental activities.	<u>(877,067)</u>
Change in net assets of governmental activities	<u><u>\$ 2,451,119</u></u>

CITY OF ERIE, PENNSYLVANIA
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual
For the Year Ended December 31, 2006

	<i>Original</i>	<i>Final</i>	<i>Actual Amounts</i>	<i>Variance with Final Budget - Positive/ (Negative)</i>
REVENUES				
Taxes	\$ 29,208,893 *	\$ 29,660,893 *	\$ 28,311,206	\$ (1,349,687)
Licenses and Permits	1,712,103	2,312,103	2,564,601	252,498
Intergovernmental	4,985,400	6,387,856	5,428,219	(959,637)
Charges for Services	418,653	466,653	434,899	(31,754)
Fines and Forfeits	1,710,000	1,710,000	1,866,603	156,603
Interest Earnings	155,000	155,000	562,662	407,662
Payment in Lieu of Taxes	550,000	550,000	597,283	47,283
Miscellaneous	4,895,945	2,429,600	1,489,718	(939,882)
Total Revenues	<u>43,635,994</u>	<u>43,672,105</u>	<u>41,255,191</u>	<u>(2,416,914)</u>
EXPENDITURES				
Current:				
General Government	7,632,428 *	7,607,428 *	6,438,389	1,169,039
Public Safety	29,860,829	29,840,466	30,461,797	(621,331)
Highways and Streets	7,273,289	7,299,900	7,069,577	230,323
Culture and Recreation	1,407,911	1,415,411	1,087,937	327,474
Total Expenditures	<u>46,174,457</u>	<u>46,163,205</u>	<u>45,057,700</u>	<u>1,105,505</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,538,463)</u>	<u>(2,491,100)</u>	<u>(3,802,509)</u>	<u>(1,311,409)</u>
OTHER FINANCING SOURCES AND (USES)				
Operating Transfers In	2,538,463	2,538,463	2,520,263	(18,200)
Operating Transfers (Out)	-	(47,363)	(25,000)	22,363
Total Other Financing Sources And (Uses)	<u>2,538,463</u>	<u>2,491,100</u>	<u>2,495,263</u>	<u>4,163</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	(1,307,246)	(1,307,246)
Fund Balance (Deficit), January 1, 2006	-	-	(12,719,123)	(12,719,123)
Prior Period Adjustment	-	-	3,543,402	3,543,402
Fund Balance (Deficit), December 31, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,482,967)</u>	<u>\$ (10,482,967)</u>

* Reduced by \$9,272,282 for property taxes levied specifically for debt service

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets
Proprietary Funds
December 31, 2006

	<i>Sewer Revenue</i>	<i>Water Revenue</i>	<i>Refuse and Recycling</i>	<i>Other Proprietary Funds</i>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 3,635,888	\$ -	\$ 1,234,247	\$ 1,307,092
Restricted Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Restricted Investments	-	-	-	-
Receivables (Net of Allowance for Uncollectibles):				
Accounts	1,452,839	-	527,972	-
Intergovernmental	749,893	-	-	-
Interfund	173,265	-	27,515	-
Other	59,561	-	-	-
Prepaid items	4,671,200	-	-	-
Total Current Assets	<u>10,742,646</u>	<u>-</u>	<u>1,789,734</u>	<u>1,307,092</u>
Non-Current Assets:				
Capital Assets:				
Land	-	592,370	-	138,630
Buildings and Improvements	1,326,058	7,923,777	-	2,797,647
Improvements Other than Building	20,511,262	35,211,685	-	733,085
Equipment and Vehicles	5,957,294	5,063,140	1,343,468	660,991
Less Accumulated Depreciation & Impairment Rese	(14,342,776)	(33,776,237)	(983,878)	(3,204,662)
Unamortized Bond Costs	230,049	-	-	-
Total Noncurrent Assets	<u>13,681,887</u>	<u>15,014,735</u>	<u>359,590</u>	<u>1,125,691</u>
Total Assets	<u>\$ 24,424,533</u>	<u>\$ 15,014,735</u>	<u>\$ 2,149,324</u>	<u>\$ 2,432,783</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 239,554	\$ -	\$ 62,912	\$ 21,784
Accrued Payroll and Related	23,038	-	2,905	1,565
Interfund Payable	-	-	-	681,177
Accrued Interest Payable	3,042,418	-	-	-
Compensated Absences Payable	210,294	-	74,701	3,981
Current Portion of Bonds Payable	127,550	-	-	41,600
Due to Other Governments	-	-	-	7,402
Total Current Liabilities	<u>3,642,854</u>	<u>-</u>	<u>140,518</u>	<u>757,509</u>
Noncurrent Liabilities:				
Claims and Judgments Payable	-	-	-	-
Deferred Revenue	7,499	7,007,104	-	-
General Obligation Bonds Payable	16,343,395	-	-	2,168,400
Total Noncurrent Liabilities	<u>16,350,894</u>	<u>7,007,104</u>	<u>-</u>	<u>2,168,400</u>
Total Liabilities	<u>19,993,748</u>	<u>7,007,104</u>	<u>140,518</u>	<u>2,925,909</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	(4,648,402)	15,573,577	335,627	(1,084,309)
Unrestricted	9,079,187	(7,565,946)	1,673,179	591,183
Total Net Assets	<u>4,430,785</u>	<u>8,007,631</u>	<u>2,008,806</u>	<u>(493,126)</u>
Total Liabilities and Net Assets	<u>\$ 24,424,533</u>	<u>\$ 15,014,735</u>	<u>\$ 2,149,324</u>	<u>\$ 2,432,783</u>

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets (Continued)
Proprietary Funds
December 31, 2006

	<i>Erie Sewer</i>		<i>Governmental</i>
	<i>Authority</i>	<i>Totals</i>	<i>Activities -</i>
			<i>Internal Service</i>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 37,292	\$ 6,214,519	\$ 497,283
Restricted Cash and Cash Equivalents	10,924,311	10,924,311	-
Investments	2,679,278	2,679,278	3,211,501
Restricted Investments	3,050,863	3,050,863	-
Receivables (Net of Allowance for Uncollectibles):			
Accounts	-	1,980,811	-
Intergovernmental	-	749,893	-
Interfund	-	200,780	-
Other	-	59,561	8,582
Prepaid items	-	4,671,200	-
Total Current Assets	<u>16,691,744</u>	<u>30,531,216</u>	<u>3,717,366</u>
Non-Current Assets:			
Capital Assets:			
Land	-	731,000	-
Buildings and Improvements	70,722,580	82,770,062	-
Improvements Other than Building	-	56,456,032	-
Equipment and Vehicles	-	13,024,893	-
Less Accumulated Depreciation & Impairment Loss	-	(52,307,553)	-
Unamortized Bond Costs	-	230,049	-
Total Noncurrent Assets	<u>70,722,580</u>	<u>100,904,483</u>	<u>-</u>
Total Assets	<u>\$ 87,414,324</u>	<u>\$131,435,699</u>	<u>\$ 3,717,366</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 50,993	\$ 375,243	\$ 22,772
Accrued Payroll and Related	-	27,508	128,379
Interfund Payable	-	681,177	389,007
Accrued Interest Payable	193,920	3,236,338	-
Compensated Absences Payable	-	288,976	-
Current Portion of Bonds Payable	2,391,897	2,561,047	-
Due to Other Governments	-	7,402	-
Total Current Liabilities	<u>2,636,810</u>	<u>7,177,691</u>	<u>540,158</u>
Noncurrent Liabilities:			
Claims and Judgments Payable	-	-	2,691,033
Deferred Revenue	155,193	7,169,796	-
General Obligation Bonds Payable	53,546,017	72,057,812	-
Total Noncurrent Liabilities	<u>53,701,210</u>	<u>79,227,608</u>	<u>2,691,033</u>
Total Liabilities	<u>56,338,020</u>	<u>86,405,299</u>	<u>3,231,191</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,812,124	23,988,617	-
Restricted	17,226,888	17,226,888	-
Unrestricted	37,292	3,814,895	486,175
Total Net Assets	<u>31,076,304</u>	<u>45,030,400</u>	<u>486,175</u>
Total Liabilities and Net Assets	<u>\$ 87,414,324</u>	<u>\$131,435,699</u>	<u>\$ 3,717,366</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, 2006

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Internal Service
OPERATING REVENUES							
Intergovernmental Revenue	\$ 17,940,596	-	-	-	\$ 5,203,270	\$ 5,203,270	\$ 10,759,837
Charges for Services	-	-	5,485,085	705,508	-	24,131,189	-
Lease Rental	-	2,631,440	-	-	-	2,631,440	-
Rental Income	-	-	-	190,024	-	190,024	-
Miscellaneous	76,812	-	33,564	8,568	-	118,944	662,721
Total Operating Revenues	18,017,408	2,631,440	5,518,649	904,100	5,203,270	32,274,867	11,422,558
OPERATING EXPENSES							
Personnel Services	3,636,681	-	1,570,049	366,435	-	5,573,165	-
Other Personnel Services	2,165,348	-	1,106,381	187,412	-	3,459,141	-
Services and Fees	2,106,771	-	1,785,332	46,272	41,504	3,979,879	205,643
Utilities	1,591,823	-	10,119	45,424	-	1,647,366	-
Rent	3,533	-	-	76,836	-	80,369	-
Insurance	317,853	-	20,865	8,120	-	346,838	10,047,476
Materials, Supplies, and Maintenance	820,869	-	313,219	101,952	-	1,236,040	-
Workers Compensation Claims and Other Claims	-	-	-	-	-	-	2,202,024
Depreciation and Amortization	1,290,977	558,843	95,818	200,252	4,295,060	6,440,950	-
Impairment Loss	-	-	-	1,408,220	-	1,408,220	-
Other Expenses	5,237,836	-	3,826	10,098	11,610	5,263,370	-
Total Operating Expenses	17,171,691	558,843	4,905,609	2,451,021	4,348,174	29,435,338	12,455,143
Operating Income (Loss)	845,717	2,072,597	613,040	(1,546,921)	855,096	2,839,529	(1,032,585)
NONOPERATING REVENUES (EXPENSES)							
Intergovernmental Revenue	274,878	-	145,160	15,443	-	435,481	-
Investment Earnings	107,549	-	31,488	64,240	799,584	1,002,861	155,518
Other Income	-	-	-	-	52,468	52,468	-
Interest Expense	(1,011,819)	-	-	(106,419)	(2,371,856)	(3,490,094)	-
Total Nonoperating Revenue (Expenses)	(629,392)	-	176,648	(26,736)	(1,519,804)	(1,999,284)	155,518
Total Income (Loss) Before Contributions and Transfers	216,325	2,072,597	789,688	(1,573,657)	(664,708)	840,245	(877,067)
Contributions	-	-	-	74,306	-	74,306	-
Transfers In	-	-	-	-	-	-	-
Transfers (Out)	(101,160)	(2,419,103)	-	-	-	(2,520,263)	-
Change in Net Assets	115,165	(346,506)	789,688	(1,499,351)	(664,708)	(1,605,712)	(877,067)
Net Assets, January 1, 2006	4,315,620	8,354,137	1,219,118	1,093,743	31,741,012	46,723,630	1,363,242
Prior Period Adjustments	-	-	-	(87,518)	-	(87,518)	-
Fund Equity (Deficit), December 31, 2006	\$ 4,430,785	\$ 8,007,631	\$ 2,008,806	\$ (493,126)	\$ 31,076,304	\$ 45,030,400	\$ 486,175

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	<i>Sewer Revenue</i>	<i>Water Revenue</i>	<i>Refuse and Recycling</i>	<i>Other Proprietary Funds</i>	<i>Erie Sewer Authority</i>	<i>Totals</i>	<i>Internal Service</i>
Cash Flows From Operating Activities							
Receipts from Customers and Users	\$ 18,880,446	\$ 2,419,103	\$ 5,672,374	\$ 895,532	\$ -	\$ 27,867,455	\$ -
Receipts from Interfund Services Provided	49,000	-	-	-	-	-	10,809,053
Receipts from Other Operating Activities	-	-	33,564	10,805	5,204,013	5,297,382	662,721
Cash Received from/ (Paid to) Other Funds	-	-	-	-	-	-	100,000
Payments to Suppliers	(3,289,267)	-	(2,322,608)	(295,287)	(88,447)	(5,995,609)	-
Payments to Employees	(5,916,292)	-	(2,680,766)	(570,058)	-	(9,167,116)	-
Payments for Other Operating Activities	(7,151,045)	-	(34,810)	(140,478)	-	(7,326,333)	(11,554,488)
Payments for Interfund Services Used	-	-	-	-	-	-	-
Net Cash Provided (Used) by Operating Activities	2,572,842	2,419,103	667,754	(99,486)	5,115,566	10,675,779	17,286
Cash Flows From Noncapital Financing Activities							
Transfers (to)/from Other Funds	(101,160)	(2,419,103)	-	-	-	(2,520,263)	-
Advances from Other Funds	-	-	-	-	-	-	-
Intergovernmental Revenue	274,878	-	145,160	15,443	-	435,481	-
Subsidies from State and Federal Governments	-	-	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	173,718	(2,419,103)	145,160	15,443	-	(2,084,782)	-
Cash Flows From Capital and Related Financing Activities							
Capital Contributions	-	-	-	-	1,310,000	1,310,000	-
Purchases of Capital Assets	(528,262)	-	-	-	-	(528,262)	-
Acquisition and Construction of Capital Assets	-	-	(1,281)	-	(2,997,342)	(2,998,623)	-
Proceeds from Capital Debt	414,738	-	-	197,723	-	612,461	-
Interest Paid on Capital Debt	(1,004,000)	-	-	(106,419)	(2,378,941)	(3,489,360)	-
Principal Paid on Capital Debt	-	-	-	-	(2,365,887)	(2,365,887)	-
Proceeds from Sales of Capital Assets	-	-	-	-	-	-	-
Net Cash Used by Capital and Related Financing Activities	(1,117,524)	-	(1,281)	91,304	(6,432,170)	(7,459,671)	-
Cash Flows From Investing Activities							
Purchase of Investments	-	-	-	-	-	-	-
Proceeds from Sales and Maturities of Investments	-	-	-	-	-	-	-
(Increase)/Decrease in Restricted Investments	-	-	-	-	3,498,407	3,498,407	196,913
Interest and Dividends Received	107,549	-	31,488	64,240	798,978	1,002,255	155,518
Net Cash Provided by Investing Activities	107,549	-	31,488	64,240	4,297,385	4,500,662	352,431
Net Increase (Decrease) in Cash and Cash Equivalents	1,736,585	-	843,121	71,501	2,980,781	5,631,988	369,717
Cash and Cash Equivalents, January 1, 2006 (Including \$127,566 for the Internal Service Fund Reported in Restricted Accounts)	1,899,303	-	391,126	1,235,591	7,980,822	11,506,842	127,566
Cash and Cash Equivalents, December 31, 2006	\$ 3,635,888	\$ -	\$ 1,234,247	\$ 1,307,092	\$ 10,961,603	\$ 17,138,830	\$ 497,283

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2006

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Services
\$	845,717	2,072,597	613,040	(1,546,921)	855,096	2,839,529	(1,032,585)
	1,290,977	558,843	95,818	200,252	4,295,060	6,440,950	-
	-	-	-	1,408,220	-	1,408,220	-
	402,848	-	187,289	-	743	590,880	-
	528,420	-	-	-	-	528,420	-
	8,582	-	-	-	-	8,582	49,217
	-	-	-	-	-	-	100,000
	(361,627)	-	(224,057)	(147,063)	(35,333)	(768,080)	(101,744)
	(104,554)	-	(39,728)	341	-	(143,941)	-
	(9,709)	-	35,392	(16,552)	-	9,131	103,771
	-	-	-	-	-	-	-
	-	-	-	-	-	-	898,627
	(27,812)	(212,337)	-	2,237	-	(237,912)	-
	1,727,125	346,506	54,714	1,447,435	4,260,470	7,836,250	1,049,871
\$	2,572,842	2,419,103	667,754	(99,486)	5,115,566	10,675,779	17,286

\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$	-	-	-	-	-	-
\$	-	-	-	-	-	-

Reconciling of Operating (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Profit / (Loss)	
Adjustments to Reconcile Operating (Loss) to Net Cash Used by Operating Activities:	
Depreciation Expense	
Non-Cash Adjustment	
(Increase) Decrease in Accounts Receivable	
(Increase) Decrease in Intergovernmental Receivables	
(Increase) Decrease in Other Receivables	
(Increase) Decrease in Interfund Receivables	
Increase (Decrease) in Accounts Payable	
Increase (Decrease) in Accrued Payroll	
Increase (Decrease) in Interfund Payables	
Increase (Decrease) in Compensated Absences Payable	
(Increase) in Claims and Judgments Payable	
Increase (Decrease) in Deferred Revenue	
Total Adjustments	
Net Cash Provided (Used) by Operating Activities	

Noncash Investing, Capital, and Financing Activities

Contributions of Capital Assets from Government	
Purchase of Equipment on Account	
Increase (Decrease) in Fair Value of Investments	
Other	

CITY OF ERIE, PENNSYLVANIA
Statement of Fiduciary Net Assets
December 31, 2006

	<i>Pension Trust Funds</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 4,557,834	\$ 3,373,378
Investments, at Fair Value		
Common Stocks	92,872,773	-
United States Government and Agency Obligations	44,119,658	-
Real estate investment trusts	1,127,683	-
Corporate Obligations	22,522,931	-
Registered Investment Companies - Mutual Funds	50,427,986	-
Short-Term Investments	2,335,200	-
Accrued Investment Income	865,585	-
Total Assets	<u>\$218,829,650</u>	<u>\$ 3,373,378</u>
LIABILITIES		
Accounts Payable	\$ 22,755	\$ 309,597
Due to Other Governments	-	3,063,781
Total Liabilities	<u>22,755</u>	<u>3,373,378</u>
NET ASSETS		
Held in Trust for Employees' Pension Benefits	218,806,895	-
	<u>\$218,829,650</u>	<u>\$ 3,373,378</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2006

	<i>Total Pension Trust Funds</i>
ADDITIONS TO NET ASSETS	
Contributions	
Employer	\$ 4,391,017
City of Erie Water Authority	322,258
Plan Members	4,284,961
Total Contributions	<u>8,998,236</u>
Investment Earnings	
Net Appreciation (Depreciation) in Fair Value of Investments	9,444,679
Interest and Dividends	10,494,720
Other Investment Income	-
Less: Investment Expenses	<u>(693,290)</u>
Total Investment Earnings	<u>19,246,109</u>
Transfers from other pension plans	<u>-</u>
Total Additions To Net Assets	<u>28,244,345</u>
DEDUCTIONS FROM NET ASSETS	
Benefits Paid	17,931,670
Participant Refunds	477,577
Administrative Expenses	<u>379,481</u>
Total Deductions From Net Assets	<u>18,788,728</u>
Net Increase (Decrease) to Net Assets	9,455,617
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net Assets, January 1, 2006	<u>209,351,278</u>
Net Assets, December 31, 2006	<u><u>\$218,806,895</u></u>

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets
Component Units
December 31, 2006

	<i>Redevelopment Authority of the City of Erie</i>	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Total</i>
ASSETS				
Cash and Cash Equivalents	\$ 32,783	\$ 1,754,891	\$ 2,108,772	\$ 3,896,446
Investments	-	791,121	-	791,121
Receivables (net of allowance for uncollectibles)	450,607	265,074	103,246	818,927
Inventories	-	196,625	-	196,625
Prepaid	-	282,803	169,670	452,473
Restricted Assets:				
Cash and Cash Equivalents	177,795	2,894,670	166	3,072,631
Investments	-	1,532,510	5,376,073	6,908,583
Other	-	-	-	-
Less restricted investments shown as current assets	-	-	-	-
Capital Assets:				
Non-depreciable	-	-	2,199,527	2,199,527
Depreciable (Net)	1,351,160	22,428,677	27,036,639	50,816,476
Bond Issue Costs (Net)	-	-	1,037,551	1,037,551
Long-Term Receivable	36,064	-	677,374	713,438
Net Pension Benefit Asset	-	333,521	-	333,521
Total Assets	\$ 2,048,409	\$30,479,892	\$ 38,709,018	\$ 71,237,319
LIABILITIES				
Accounts Payable	\$ 316,789	\$ 169,030	\$ 362,967	\$ 848,786
Accrued Liabilities	11,375	966,042	58,581	1,035,998
Accrued Interest Payable	-	-	473,453	473,453
Other Current Liabilities	21,176	558,811	-	579,987
Deferred Revenue	108,292	-	-	108,292
Non-Current Liabilities				
Due Within One Year				
Bonds, Loans and Leases Payable	355,486	-	935,000	1,290,486
Due In More Than One Year				
Bonds, Loans and Leases Payable	635,639	-	29,731,971	30,367,610
Deferred Revenue	-	-	-	-
Total Liabilities	1,448,757	1,693,883	31,561,972	34,704,612
NET ASSETS				
Invested in Capital Assets (net of related debt)	695,650	22,428,677	1,565,020	24,689,347
Restricted for:				
Other	-	4,427,180	3,755,027	8,182,207
Unrestricted:				
Undesignated	(95,998)	1,930,152	1,826,999	3,661,153
Total Net Assets	599,652	28,786,009	7,147,046	36,532,707
Total Liabilities and Net Assets	\$ 2,048,409	\$30,479,892	\$ 38,709,018	\$ 71,237,319

CITY OF ERIE, PENNSYLVANIA
Statement of Activities
Component Units
For the Year Ended December 31, 2006

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Culture and Recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic and community development	3,486,316	-	3,721,077	-	-	234,761
Total Governmental Activities	3,486,316	-	3,721,077	-	-	234,761
Business-type activities:						
Public transportation	15,041,665	5,810,678	6,859,028	1,815,903	(556,056)	(556,056)
Metered parking	5,290,882	5,066,483	-	-	(224,399)	(224,399)
Total Business-type Activities	20,332,547	10,877,161	6,859,028	1,815,903	(780,455)	(780,455)
Total component units	\$ 23,818,863	\$ 10,877,161	\$ 10,580,105	\$ 1,815,903	(780,455)	(545,694)
			General Revenues:			
			Interest Earnings		2,137	585,643
			Miscellaneous		20,420	944
			Total General Revenues and Transfers		22,557	586,587
			Changes in net assets		257,318	(193,868)
			Net assets - Beginning of Year		342,334	36,126,923
			Net assets - End of Year		\$ 599,652	\$ 35,933,055
						\$ 36,532,707

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2006

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 Metropolitan Transit Authority Erie Parking 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 is 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 following entity has been included as a blended component unit:

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. 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.

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 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. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Administrative Offices:

Redevelopment Authority of the City of Erie
126 West 9th Street
Erie, Pennsylvania 16501
December 31, 2006
Unqualified opinion dated August 15, 2007

Erie Parking Authority
25 East 10th Street
Erie, Pennsylvania 16501
December 31, 2006
Unqualified opinion dated January 24, 2007

Erie Metropolitan Transit Authority
127 East 14th Street
Erie, Pennsylvania 16503
June 30, 2006
Unqualified opinion dated August 10, 2006

Erie Sewer Authority
c/o PNC Bank
P.O. Box 8480
Erie, Pennsylvania 16501
December 31, 2006
Unqualified opinion date March 8, 2007

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 – Federally 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Grant Funds – Federal, state and locally 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.

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

The government reports the following major proprietary funds:

Sewer Revenue Fund– 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.

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 a 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 three months or less.

Investments - Investments other than those included in the Capital Improvements, 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 3.50% and are due at various dates through January 2009. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Refer to Note C, *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.

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 *non-operating* 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 regulation.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 \$10,482,967 at December 31, 2006 that was the result of excess of expenditures over revenues for the past several years. This deficit was largely financed with inter-fund transfers payable to the City's Debt Service Fund (\$14,596,673) for real estate and pension levy taxes, and the remaining was obtained from the Capital Projects Fund (\$1,500,000). In 2007, to help reduce the General Fund deficit, again as in 2005 the City will be selling delinquent real estate taxes. Taxes from 2005 and prior were sold in the previous year. The gross value of the 2006 delinquent real estate taxes is \$1,920,801 and will be sold for \$1,605,730. See subsequent events section for details of sale. The City is also considering a property tax increase, outsourcing, more layoffs and fee increases. For the 2007 budget, the City hopes to include health-care contributions from all City workers and an increase in contributions from tax-exempt groups.

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 (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

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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.

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 (continued)

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, 2006 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 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.	\$ 900,000	\$ 815,316
2. Collateralized with securities held by the pledging financial institutions' trust department or agent in the City's name.	706	706
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>36,097,767</u>	<u>36,458,816</u>
Total	<u>\$ 36,998,473</u>	<u>\$ 37,274,838</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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
U.S. Government Securities	\$ -	\$ -	\$55,827,495
Corporate Bonds	-	-	24,324,401
Common Stocks	-	-	94,587,457
Registered Investment Companies	-	-	52,508,337
Real Estate Investment Trust	-	-	1,127,683
Short-Term Investments	-	-	2,335,200
 Total Investments	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$230,710,573</u>

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

Cash and cash equivalents	\$36,998,473
Investments	230,710,573
Total	<u>\$267,709,046</u>

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

Cash and Cash Equivalents	16,029,495
Investments	14,253,479
Restricted Cash and Cash Equivalents	20,968,978
Restricted Investments	216,457,094
Total	<u>\$267,709,046</u>

Accounts Receivable - Accounts receivable represents the balance due to the Enterprise Fund as of December 31, 2006 for services provided through December 31, 2006, net of an allowance for uncollectible accounts.

	<u>Sewer Revenue Fund</u>	<u>Refuse and Recycling Fund</u>	<u>Total</u>
Gross Accounts Receivables	\$ 1,618,839	\$ 751,972	\$ 2,370,811
Less: Allowance for Uncollectible Receivables	166,000	224,000	390,000
Accounts Receivable, net	<u>\$ 1,452,839</u>	<u>\$ 527,972</u>	<u>\$ 1,980,811</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 \$26,203,487 on January 1, 2006 based on a gross assessed valuation of \$2,566,453,176 at 10.21 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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2006. Current real estate taxes receivable at December 31, 2006 consists of the face value of the tax levy uncollected at December 31, 2006.

The receivable for outstanding delinquent tax levied at December 31, 2006 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. As of April 9, 2007, all 2006 delinquent tax receivables were sold to Xspand, Inc a privately owned company that purchases municipal tax liens. (see Subsequent Event Section)

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, 2006. 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, 2006. 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 2006	\$ 1,920,801
Provision for Uncollectible Receivables	<u>(413,347)</u>
Total Property Tax Receivable	1,507,454
Total Lien Receivable	60,627
Other deferred revenue	1,263,133
Total Deferred Revenue	<u><u>\$ 2,831,214</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, 2006, as well as the City's share of the fourth quarter, 2006 taxes collected by the tax collector in January and February 2006 as follows:

Estimated Share of December 31, 2006 Cash Balance	\$ -
Estimated Share of January and February 2007 Cash Receipts	981,934
Total Receivable	<u><u>\$ 981,934</u></u>

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

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Program, four programs included with the Special Revenue Funds. The notes bear interest ranging from 1.0% to 6.0% with various maturities. During 2006, payments made to the City totaled \$904,140 representing \$721,228 of principal and \$182,912 of interest. The detailed activity is as follows:

Balance Outstanding at December 31, 2005	\$ 11,593,386
2006 Loans	1,127,000
2006 Write Offs	(462,759)
2006 Accrued Interest on Loans	135,801
Principal Repayments	(763,614)
Balance Outstanding at December 31, 2006	<u>\$ 11,629,814</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	\$ 152,978	\$ 628,570	\$ 92,348
Less: Provision for Uncollectible Receivables	(92,351)	(362,875)	(36,525)
Net Lien Receivable	<u>\$ 60,627</u>	<u>\$ 357,905</u>	<u>\$ 55,823</u>

The lien receivables have been reported as deferred revenue to the extent not susceptible to accrual. Deferred revenue for the General Fund, Special Revenue Fund, Capital Projects Fund and Enterprise Fund at December 31, 2006 is \$2,831,214; \$265,695; \$55,823 and \$7,169,796, respectively.

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

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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.

2008	\$	2,527,963
2009		2,641,721
2010		2,760,599
2011		2,884,825
2012 and thereafter		117,292,237
Total Future Lease Payments	\$	<u>128,107,345</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). Prepaid item in the Enterprise Fund is \$4,671,200 at December 31, 2006.

Capital Assets

Capital asset activity for primary government – governmental activities for the year ended December 31, 2006 was as follows:

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
Governmental Activities				
Non-Depreciable Assets:				
Land	\$ 11,228,450	\$ 183,384	\$ -	\$ 11,411,834
Construction in Progress	-	-	-	-
Depreciable Assets:				
Buildings and improvements	9,003,848	-	-	9,003,848
Improvements other than building	4,526,988	1,626,188	-	6,153,176
Equipment and vehicles	26,304,012	825,112	-	27,129,124
Infrastructure	46,203,212	4,276,683	-	50,479,895
Totals at historical cost	<u>97,266,510</u>	<u>6,911,367</u>	<u>-</u>	<u>104,177,877</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,496,104)	(491,319)	-	(6,987,423)
Improvements other than building	(923,316)	(96,653)	-	(1,019,969)
Equipment	(17,384,814)	(666,008)	-	(18,050,822)
Infrastructure	(16,629,816)	(991,007)	-	(17,620,823)
Total accumulated depreciation	<u>(41,434,050)</u>	<u>(2,244,987)</u>	<u>-</u>	<u>(43,679,037)</u>
Governmental activities capital assets, net	<u>\$ 55,832,460</u>	<u>\$ 4,666,380</u>	<u>\$ -</u>	<u>\$ 60,498,840</u>

Capital asset activity for primary government – business-type activities for the year ended December 31, 2006 was as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements/ Impairments</i>	<i>Ending Balance</i>
Business-type Activities				
Non-Depreciable Assets:				
Land	\$ 731,000	\$ -	\$ -	\$ 731,000
Construction in Progress	-	-	-	-
Depreciable Assets:				
Buildings and improvements	49,198,789	167,342	1,408,196	47,957,935
Improvements other than building	56,092,056	363,976	-	56,456,032
Equipment and vehicles	102,313,087	3,188,354	-	105,501,441
Totals at historical cost	<u>208,334,932</u>	<u>3,719,672</u>	<u>1,408,196</u>	<u>210,646,408</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,252,455)	(294,097)	-	(7,546,552)
Improvements other than building	(85,412,484)	(5,569,548)	-	(90,982,032)
Equipment and vehicles	(11,037,123)	(406,267)	-	(11,443,390)
Total accumulated depreciation	<u>(103,702,062)</u>	<u>(6,269,912)</u>	<u>-</u>	<u>(109,971,974)</u>
Business-type activities capital assets, net	<u>\$ 104,632,870</u>	<u>\$ (2,550,240)</u>	<u>\$ 1,408,196</u>	<u>\$ 100,674,434</u>

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 1,930,689
Public safety	157,149
Highways and streets	112,249
Culture and recreation	44,900
Total depreciation expense - governmental activities	<u>\$ 2,244,987</u>
Business-type activities:	
Sewer	\$ 5,414,999
Refuse	95,818
Golf	200,252
Water	558,843
Total depreciation expense - business-type activities	<u>\$ 6,269,912</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.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2005 and 2004 (date of latest actuarial valuation), employee membership data is as follows, excluding Erie City Water Authority employees:

	<u>2005</u>	<u>2004</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>455</u>	<u>465</u>
Active participants, vested and non-vested	<u>433</u>	<u>448</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.

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

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 \$68,499,584 at December 31, 2006. 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, 2005 and 2004 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”.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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

	<i>January 1,</i>	
	<u>2005</u>	<u>2004</u>
Present value of benefits at attained age		
Active participants	\$ 58,900,790	\$ 56,738,727
Inactive participants	1,845,967	1,765,090
Retirees and beneficiaries receiving benefits	<u>36,017,243</u>	<u>34,161,373</u>
Total present value of projected benefits	96,764,000	92,665,190
Actuarial present value or future normal costs	<u>17,206,198</u>	<u>17,579,255</u>
Actuarial accrued liability	79,557,802	75,085,935
Actuarial value of assets at fair value	<u>62,832,647</u>	<u>62,947,823</u>
Unfunded actuarial accrued liability	<u>\$ 16,725,155</u>	<u>\$ 12,138,112</u>

Employee contributions at January 1, 2006 and 2005 consist of:

	<u>2005</u>	<u>2004</u>
All active participants	<u>\$ 11,259,496</u>	<u>\$ 10,851,846</u>

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuations of the pension benefit obligation occurred during 2006 or 2005.

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.

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>2005</u>	<u>2004</u>
Preliminary Minimum Pension Cost		
Normal Cost	\$ 1,657,989	\$ 1,638,154
Administrative expenses	83,147	80,344
Amortization of the unfunded actuarial accrued liability	<u>1,652,834</u>	<u>1,058,108</u>
Actuarial present value or future normal costs	<u>\$ 3,393,970</u>	<u>\$ 2,776,606</u>
Total current year pension contributions	<u>\$ 2,904,861</u>	<u>\$ 2,891,016</u>
Actual funding level of minimum pension cost	<u>85.59%</u>	<u>104.12%</u>

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

For the years ended December 31, 2006 and 2005, 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:

	<u>2006</u>	<i>Covered Payroll %</i>	<u>2005</u>	<i>Covered Payroll %</i>
Per January 1, 2005 actuarial valuation				
Covered payroll for the prior fiscal year	<u>\$ 16,331,790</u>		<u>\$ 16,331,790</u>	
Contributions - Year ended December 31,				
Employers' contributions	\$ 1,906,810	11.10%	\$ 1,805,394	11.10%
Employee contributions	991,767	6.70%	1,099,467	6.70%
	<u>\$ 2,898,577</u>	<u>17.80%</u>	<u>\$ 2,904,861</u>	<u>17.80%</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>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>
1996	\$35.8	\$56.8	\$21.0	63.1%	\$11.9	175.5%
1997	\$39.9	\$57.5	\$17.6	69.3%	\$12.5	140.6%
1998	\$46.7	\$60.8	\$14.1	76.8%	\$13.0	108.1%
1999	\$54.1	\$60.5	\$6.4	89.4%	\$13.4	47.9%
2000	\$57.3	\$62.2	\$5.0	92.0%	\$14.0	35.6%
2001	\$54.9	\$64.2	\$9.3	85.6%	\$14.5	63.8%
2002	\$58.8	\$67.6	\$8.7	87.1%	\$15.7	55.7%
2003	\$60.7	\$72.6	\$11.9	83.6%	\$16.5	72.2%
2004	\$62.9	\$75.1	\$12.1	83.8%	\$16.2	75.1%
2005	\$62.8	\$79.6	\$16.7	79.0%	\$16.3	102.4%

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

The following specific information was used in the actuarial valuation dated January 1, 2005 and 2004:

Actuarial cost method	Entry age normal
Unfunded actuarial liability amortization method	Level dollar amount, closed
Remaining amortization period	25 years
Asset valuation method	5-year, Smoothed market value
Investment rate of return	8.0% per annum
Projected salary increases	5.0% per annum
Cost-of-living adjustments	Not applicable

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.

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, 2005 and 2004 (date of latest actuarial valuation), employee membership data is as follows:

	<u>2005</u>	<u>2004</u>
Retirees, and beneficiaries, including widows, court-ordered, and guardians currently receiving benefits	<u>263</u>	<u>241</u>
Current employees including fully and partially vested, and non-vested	<u>190</u>	<u>208</u>
Terminated employees - vested, but not currently receiving benefits	<u>3</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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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).

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 \$71,230,349 and \$67,128,365 at December 31, 2006 and 2005, 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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Funding Status and Progress of Plan

<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%
January 1, 2005	76,055,676	89,621,649	13,565,973	84.9%	9,933,822	136.6%

Employer contributions are as follows:

<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
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%
2005	671,014	100.0%
2006	909,353	100.0%

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2005 (date of latest actuarial valuation), employee membership data is as follows:

	<u>2005</u>	<u>2004</u>
Retirees and beneficiaries currently receiving benefits	215	215
Active employees, including fully vested, partially vested and non-vested	163	163

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 2005, 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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 \$53,334,757 at December 31, 2006. 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.

The summary of the Fund's unfunded actuarial accrued liability as of its latest actuarial valuation date, January 1, 2005 (the date of the latest actuarial valuation) is as follows:

Present Value of Benefits at Attained Age-	
Active Participants	\$ 37,557,791
Retirees and Beneficiaries Receiving Benefits	40,707,754
Total Present Value of Projected Benefits	<u>78,265,545</u>
Actuarial Present Value of Future Normal Costs	10,055,528
Actuarial Accrued Liability	<u>68,210,017</u>
Actuarial Value of Assets (Fair market value is \$53,178,084)	55,313,434
Unfunded Actuarial Accrued Liability	<u><u>\$ 12,896,583</u></u>

At December 31, 2006, the following investments exceeded 5% of net assets available for benefits:

Templeton Funds Inc. Foreign Fund Class A	\$ 6,548,102
American Funds Euro Pacific Growth Fund #16	6,608,564
	<u><u>\$ 13,156,666</u></u>

Funding Status and Progress of Plan

Total payroll and covered payroll for the year ended December 31, 2006 and 2005 was \$9,533,054 and \$8,252,565, respectively. In 2006, net contributions made totaled \$1,667,960, as follows:

	<i>Amount</i>	<i>Covered Payroll %</i>
Municipal Contribution - City of Erie, PA - MMO	\$ 1,170,958	14.2%
Active Member Contributions	497,002	6.0%
Other Member Contributions	21,356	
	<u><u>\$ 1,689,316</u></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, 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		Switched to Biennial Valuation Calculations				
January 1, 2005	\$55.3	\$68.2	\$12.9	81.1%	\$9.0	143.3%
January 1, 2006		Biennial Valuation Calculations				

Deferred Compensation Plan

The City offers its’ employees two deferred compensation plans created in accordance with Internal Revenue Code §401a and §457. The 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 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. Total contributions into the plans for 2006 were \$2,972,099.

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 \$22,571,339 at December 31, 2006. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation).

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

The plans currently have no retirees or terminated employees and 536 active employees for a total of 536 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.

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, 2006 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 2006, the combined medical and indemnity stop-loss amount was \$100,000. 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, 2006 to December 31, 2006.

Balance, January 1, 2006	\$ 1,144,892
Incurred Claims and Claims Adjustment Expenses:	
Provision for Insured Events of the Current Year	525,435
Increases in Provision for Insured Events of Prior Year	(581,084)
Total Incurred Claims and Claims Adjustment Expenses	<u>1,089,243</u>
Less: Payments	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	204,226
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	154,610
Total Payments	<u>358,836</u>
Balance, December 31, 2005	730,407
Incurred Claims and Claims Adjustment Expenses:	
Provision for Insured Events of the Current Year	275,753
Decreases in Provision for Insured Events of Prior Year	(114,623)
Total Incurred Claims and Claims Adjustment Expenses	<u>891,537</u>
Less: Payments	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	161,728
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Year	238,976
Total Payments	<u>400,704</u>
Balance, December 31, 2006	<u><u>\$ 490,833</u></u>

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 \$2,200,200.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2006 are as follows:

	<i>Total</i>
2007	\$ 5,151,949
2008	5,003,378
2009	5,009,954
2010	5,088,265
Thereafter	84,209,388
Minimum Lease Obligation	<u>\$ 104,462,934</u>

The lease rental payment for 2006 was \$5,204,017.

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 six capital lease agreements for equipment during the year ended December 31, 2006.

The remaining lease payments as of December 31, 2006 are as follows:

2007	\$ 19,764
2008	10,656
Total Lease Payments	<u>30,420</u>
Less: Interest Portion	(492)
Minimum Lease Obligation	<u>\$ 29,928</u>

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 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.

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. Outstanding principal, including compounded accreted value, of the 1998A and 1998B bonds at December 31, 2006 is \$2,700,000 and \$ 31,686,855, respectively.

Outstanding principal, including compounded accreted value, of the 1998B Bonds in the amount of \$ 8,872,319 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 \$22,814,536 of the 1998B Bonds is included in the Governmental Activities section of the Statement of Net Assets.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 (See below). Outstanding principal, including compounded accreted value, of the 2001A, 2001B and 2001C bonds at December 31, 2006 is \$2,485,000; \$8,885,000 and \$10,599,708, respectively. Outstanding principal of the 2001B Bonds in the amount of \$1,599,300 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 \$7,285,700 of the 2001B Bonds is 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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Principal of the 2001D, 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, 2006 is \$18,485,000; \$13,505,000; and \$11,070,000, respectively. Outstanding principal of the 2001E and F Bonds in the amount of \$5,942,200 and \$3,099,600 are being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The 2001D remaining \$7,562,800 and \$7,970,400 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, 2006 is \$2,210,000. The 2003 Note is included in the Proprietary Fund Section of the Statement of Net Assets.

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, 2006 is \$350,000. 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, 2006 is \$7,165,000, and \$1,870,000, respectively. Outstanding principal of the 2004A and B Bonds in the amount of \$9,035,000 is being classified in the Governmental Activities Section of the Statement of Net Assets.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

The annual debt service requirements to maturity, including principal and interest, for the General Obligation Bonds as of December 31, 2006, are as follows:

	<i>Governmental Activities</i>	<i>Business- Type Activities</i>
2007	\$ 9,339,047	\$ 3,458,559
2008	8,683,501	3,397,803
2009	8,400,435	3,759,477
2010	8,381,526	3,948,764
2011	8,460,427	3,987,020
2012-15	29,477,865	70,661,468
2016-19	29,867,880	8,902,281
2020-23	21,797,628	8,652,423
2024-26	17,771,881	3,321,499
Total principal and interest	<u>142,180,190</u>	<u>110,089,294</u>
Less: Interest, other than accreted interest	<u>20,522,536</u>	<u>7,686,699</u>
Total Outstanding Liability	121,657,654	102,402,595
Less: Accreted interest	<u>31,650,556</u>	<u>6,692,881</u>
Total General Obligation Bonds	<u>\$ 90,007,098</u>	<u>\$ 95,709,714</u>

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Amounts Due Within One Year</i>
Governmental Activities:					
Bonds, loans and leases payable:					
General obligation bonds	\$ 126,095,188	\$ -	\$ (4,807,072)	\$ 121,288,116	\$ 5,366,000
Leases payable	137,063	-	(106,643)	30,420	19,764
Long-term loans	400,000	-	(50,000)	350,000	59,383
	<u>126,632,251</u>	<u>-</u>	<u>(4,963,715)</u>	<u>121,668,536</u>	<u>5,445,147</u>
Less bond discount and deferred amount on refunds	(33,297,117)	-	1,635,679	(31,661,438)	-
Total bonds, loans and leases payable	<u>93,335,134</u>	<u>-</u>	<u>(3,328,036)</u>	<u>90,007,098</u>	<u>5,445,147</u>
Other liabilities:					
Compensated absences	3,684,078	-	(1,234,042)	2,450,036	166,286
Total other liabilities	<u>3,684,078</u>	<u>-</u>	<u>(1,234,042)</u>	<u>2,450,036</u>	<u>166,286</u>
Governmental activities long-term liabilities	<u>\$ 97,019,212</u>	<u>\$ -</u>	<u>\$ (4,562,078)</u>	<u>\$ 92,457,134</u>	<u>\$ 5,611,433</u>
Business-Type Activities					
Bonds and loans payable:					
General obligation bonds	\$ 85,492,527	\$ -	\$ (1,570,215)	\$ 83,922,312	\$ 2,825,897
Long-term loans	2,250,000	-	(40,000)	2,210,000	130,000
	<u>87,742,527</u>	<u>-</u>	<u>(1,610,215)</u>	<u>86,132,312</u>	<u>2,955,897</u>
Less bond discount and deferred amount on refunds	(9,062,261)	-	591,226	(8,471,035)	-
Total bonds and loans payable	<u>78,680,266</u>	<u>-</u>	<u>(1,018,989)</u>	<u>77,661,277</u>	<u>2,955,897</u>
Compensated absences	279,845	9,131	-	288,976	288,976
Business-type activities long-term liabilities	<u>\$ 78,960,111</u>	<u>\$ 9,131</u>	<u>\$ (1,018,989)</u>	<u>\$ 77,950,253</u>	<u>\$ 3,244,873</u>
Component Unit:					
Bonds and loans payable:					
General obligation bonds	\$ 30,608,433	\$ 6,056,364	\$ (3,902,922)	\$ 32,761,875	\$ 3,346,768
	<u>30,608,433</u>	<u>-</u>	<u>-</u>	<u>32,761,875</u>	<u>3,346,768</u>
Less bond discount and deferred amount on refunds	(1,419,929)	(210,885)	191,421	(1,439,393)	-
Total bonds and loans payable	<u>29,188,504</u>	<u>(210,885)</u>	<u>191,421</u>	<u>31,322,482</u>	<u>3,346,768</u>
Compensated absences	-	-	-	-	-
Component Unit long-term liabilities	<u>\$ 29,188,504</u>	<u>\$ (210,885)</u>	<u>\$ 191,421</u>	<u>\$ 31,322,482</u>	<u>\$ 3,346,768</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, 2006, the amount of defeased debt outstanding and removed from the Statement of Net Assets amounted to \$ 31,932,086.

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 \$ 455,263 which represents an increase of \$ 34,742 from the prior year, and is recorded in the appropriate funds as a current liability. See Prior Period Adjustment Section for further information regarding compensated absences.

Other Post-employment Benefits - In addition to pension benefits 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 2006, the cost of post-employment benefits was \$1,251,745 for the 74 eligible Police retirees and \$787,480 for the 57 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, 2006 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	\$ 681,177	\$ -
Internal Service	434,489	-
Debt Service	1,965,474	-
Sewer	-	200,780
Internal Service	-	45,482
Debt Service	-	14,596,674
Capital Improvements Fund	-	1,500,000
Debt Service Fund:		
General Fund	14,596,674	1,965,474
Capital Improvements Fund	-	35,913
Sewer Revenue Fund:		
General Fund	173,265	-
Refuse Fund:		
General Fund	27,515	-
Golf Fund:		
General Fund	-	681,177
Capital Improvements Fund:		
Debt Service Fund	35,913	-
General Fund	1,500,000	-
Internal Service Fund:		
General Fund	45,482	434,489
	<u>\$ 19,459,989</u>	<u>\$ 19,459,989</u>

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 \$7,750,000.

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, 2006 are \$19,914,105.

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, 2006 are \$13,525,000.

During 2006, the Erie Sewer Authority entered into two Swaptions. The City agreed to guaranty this component unit's Swaptions in the form of an Interest Rate Swaption Agreement whereby the City will guarantee payment of the swap options. The amount of deferred premium payments at December 31, 2006 is \$155,193.

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, 2006 are \$10,485,000.

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, 2006 are \$7,650,000.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2006 are \$8,035,000.

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, 2006 is \$136,235.

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, 2006 is \$575,117.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series 2006, were issued to advance refund the Authority's Series of 1998 and 2003 and provide resources for various projects. The City agreed to guaranty this component unit's 2006 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, 2006 are \$5,936,364.

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.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 \$721,228.

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, 2006".

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.

Prior Period Adjustments and Restatements

General Fund Restatement- At December 31, 2006, compensated absences were overstated by \$3,377,116. As a result, personnel cost for various expenditure categories were overstated in prior years. The restatement has the effect of increasing beginning fund balance by \$3,377,116 in the General Fund in 2006.

Subsequent Events

Tax and Revenue Anticipation Note - The City issued a tax and revenue anticipation note of \$4,000,000 on February 6, 2007, bearing an interest rate of 4.45%, payable June 29, 2007.

Sale of Delinquent Real Estate Taxes – On April 9, 2007, the City sold delinquent real estate taxes from 2006 valued at \$1,965,539 for \$1,507,453 to Xspand, Inc a privately owned company that purchases municipal tax liens. The sale is an effort made by the City to deal with anticipated year end cash shortages. Erie County Tax Claim Bureau will continue to collect delinquent taxes; however, payments will be remitted to Xspand, Inc.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

Deferred Retirement Option Program (D.R.O.P) – The Pennsylvania Auditor General Office made a ruling that the City improperly received state aid for police and firefighters who participated in the D.R.O.P. and must repay \$900,000 in state aid. This amount has been included in claims and judgments payable in the internal service fund at December 31, 2006. The \$900,000 repayment covers the years of 2002 to 2004 for police and 2002 to 2005 for fire. More money will likely be owed for those who retired under the D.R.O.P in subsequent years. At this time, however, no estimate can be made as to the amount because the state has not done an audit for those years.

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.

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, 2006, 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.

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash	\$ 226,257	\$ -	\$ -	\$ 226,257	\$ 210,578

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Real Property	<u>\$ 957,067</u>	<u>\$ 645,565</u>	<u>\$ 202,617</u>	<u>\$ 1,400,015</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, 2006, 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 property located at 826 Parade Street serves as collateral for this loan. As of December 31, 2006, the outstanding balance was \$153,916. On May 23, 2007, the Authority sold the property located at 826 Parade Street, at which time, the loan was repaid in full.

In November of 2003, the Authority borrowed \$180,000 from the City of Erie for the purchase of ten properties along 17th and 18th 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, 2006, 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 5th 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, 2006, the outstanding balance was \$198,105.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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. 11th Street property serves as collateral. As of December 31, 2006, the outstanding balance was \$19,490.

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, 2006, were calculated using the total compensation of eligible participants in the amount of \$317,849. Both the Authority and the covered employees made the required contributions, amounting to \$23,839 from the Authority and \$29,551 from the covered employees.

Transactions with the Primary Government - During 2006, the Redevelopment Authority received \$1,412,199 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.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 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	\$ 1,609,169
Pennsylvania Department of Transportation, Act 3, Additional Supplemental Grant and Base Supplemental Grant	2,818,011
	<u>\$ 4,427,180</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:

<i>Category</i>	<i>Carrying Amount</i>
1. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.	\$ 200,000
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.	4,489,229
Total	<u>\$ 4,689,229</u>

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 Agencies (uncategorized)	\$ 378,479
Pennsylvania Local Government Income Trust (uncategorized)	269,264
Certificates of deposit (uncategorized)	1,593,023
Money market funds (uncategorized)	82,865
Total	<u>\$ 2,323,631</u>

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 July 1, 2005</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>	<i>Dispositions</i>	<i>Balance June 30, 2006</i>
Land	N/A	\$ 189,369	\$ -	\$ -	\$ -	\$ 189,369
Land Improvements	10-15	223,877	-	-	-	223,877
Buildings and Improvements	5-33	3,797,917	28,710	-	(4,400)	3,822,227
Buses	5-12	17,765,818	3,621,444	1,995	(1,440,852)	19,948,405
Fare Boxes	12	704,617	8,374	-	-	712,991
Vehicles and Equipment	4-7	343,180	21,738	(1,995)	-	362,923
Shop and Garage Equipment	5-12	1,177,833	84,674	-	(112,249)	1,150,258
Office Furniture and Equipment	5-10	380,715	10,343	-	(22,889)	368,169
Radio Equipment	12	518,829	2,214	-	-	521,043
Bus Shelters	12-15	298,624	-	-	-	298,624
Suburban Mobility Study	N/A	-	-	-	-	-
Park and Ride	30	1,937,802	-	-	-	1,937,802
Intermodal Center	30	8,979,544	4,020	-	-	8,983,564
CNG Facility	30	1,620,317	-	-	-	1,620,317
Total		37,938,442	3,781,517	-	(1,580,390)	40,139,569
Less: Accumulated Depreciation		(16,729,900)	(2,560,197)	-	1,579,205	(17,710,892)
Net Investment in Transit System		\$ 21,208,542	\$ 1,221,320	\$ -	\$ (1,185)	\$ 22,428,677

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.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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	04/30/04	\$ 221,046	119.48%	\$ (192,731)
	04/30/05	462,172	94.41%	(166,887)
	04/30/06	456,962	98.47%	(159,918)
Supplemental Plan	04/30/04	\$ 21,493	169.53%	\$ (175,307)
	04/30/05	67,268	98.11%	(174,036)
	04/30/06	67,691	99.36%	(173,603)

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, 2007. The line is unsecured and bears interest at the prime rate minus 1½ percent. There were no borrowings outstanding at June 30, 2006 and 2005.

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.

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

<i>Category</i>	<i>Carrying Amount</i>
1. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.	\$ -
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.	1,971,290
Total	<u>\$ 1,971,290</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.

	<i>Category</i>			<i>Cost</i>
	<i>1</i>	<i>2</i>	<i>3</i>	
Government obligations due at various dates bearing interest at 1.88%	\$ -	\$ -	\$ 3,440,664	\$ 3,440,664
FNMA note bearing interest at 5.22%, maturing 02/02/2005	-	-	1,935,409	1,935,409
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,376,073</u>	<u>\$ 5,376,073</u>

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.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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 2006 is as follows:

	<i>Balance</i>			<i>Balance</i>
	<i>January 1, 2006</i>	<i>Additions</i>	<i>Dispositions</i>	<i>December 31, 2006</i>
Land	\$ 2,199,527	\$ -	\$ -	\$ 2,199,527
Parking Facilities	40,719,027	1,761,462	-	42,480,489
Metered Collection Equipment	759,832	49,241	-	809,073
Other Equipment and Vehicles	485,730	-	-	485,730
Total Fixed Assets	44,164,116	1,810,703	-	45,974,819
Less: Accumulated Depreciation	15,640,750	1,097,903	-	16,738,653
Net Fixed Assets	<u>\$ 28,523,366</u>	<u>\$ 712,800</u>	<u>\$ -</u>	<u>\$ 29,236,166</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, 2006 amounted to \$32,707.

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	\$ 13,992
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	(7,888)
Annual Pension Cost	<u>6,104</u>
Contributions Made	<u>(27,114)</u>
Decrease in Net Pension Obligation	(21,010)
Net Pension Obligation Beginning of Year	27,114
Net Pension Obligation End of Year	<u><u>\$ 6,104</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>
12/31/04	\$ 32,467	100%	\$ 32,467
12/31/05	27,114	100%	27,114
12/31/06	6,104	0%	6,104

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 \$42,179 in 2006. Employee contributions to the Plan amounted to \$69,514 in 2006. At December 31, 2006, the plan has \$0 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, 2022.	\$ 10,485,000
Series of 2003 Refunding Bonds secured by the Authority's revenue bearing interest at 4.65% with various maturities through September 1, 2026.	7,650,000
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, 2015.	8,035,000
Series of 2006 Refunding Bonds secured by the Authority's revenue bearing interest at 4.25% to 4.70% with various maturities through September 1, 2027.	<u>5,936,364</u>
Outstanding Principal at December 31, 2006	32,106,364
Less: Original Issue Discount	(277,757)
Less: Deferred Amount of Refunding	(1,161,636)
Less: Current Maturities	(935,000)
Total Long-Term Portion	<u><u>\$ 29,731,971</u></u>

The following summarizes the maturities due subsequent to December 31, 2006, for future debt obligation payments, including \$18,777,378 of interest.

2007	\$ 2,355,358
2008	2,353,593
2009	2,352,988
2010	2,354,238
2010	2,352,921
Thereafter	<u>39,114,644</u>
	<u><u>\$ 50,883,742</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, 2006, \$2,280,000 of the Series of 1998 bonds and \$565,000 of the Series 2003 bonds were outstanding and considered defeased.

Erie Sewer Authority (Blended)

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, 2006, 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	\$ 10,961,603
Investments	5,681,809
Total	<u>\$ 16,643,412</u>
Balance Sheet Amounts:	
Cash and cash equivalents	
Unrestricted	\$ 37,292
Restricted	10,924,311
Total cash and cash equivalents	<u>10,961,603</u>
Investments:	
Restricted	5,681,809
Total investments	<u>5,681,809</u>
Total	<u>\$ 16,643,412</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 65.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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

Sewer Revenue Bonds, Series 2002, bearing interest ranging from 2.0% to 4.125%	\$ 4,020,000
Sewer Revenue Bonds, Series A and B of 2001, bearing interest ranging from 2.25% to 5.5%	19,914,105
Sewer Revenue Bonds, Series of 2001, bearing interest ranging from 3.0% to 5.125%	13,525,000
Sewer Revenue Bonds, Series of 1999, bearing interest ranging from 3.0% to 4.95%	18,740,000
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	575,117
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>136,234</u>
Outstanding Principal at December 31, 2006	56,910,456
Less: Current Maturities	<u>(2,391,897)</u>
Total Long-Term Portion	<u><u>\$ 54,518,559</u></u>

The following summarizes the maturities due subsequent to December 31, 2006 for outstanding indebtedness of the Authority, including \$21,027,945 of interest:

2007	\$ 2,391,897
2008	2,375,757
2009	2,466,275
2010	2,627,422
2011	2,755,000
Thereafter	<u>61,370,000</u>
	<u><u>\$ 73,986,351</u></u>

The total principal outstanding as reported on the Combined Balance Sheet at December 31, 2006 is net of \$1,777,342 of unamortized cost of advanced refunding relating to the Series of 2002, Series A and B of 2001, Series of 2001, and Series of 1999 bonds.

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, 2006 was \$12,550,000, and \$3,006,871, respectively.

NOTE C – DETAIL NOTES – ALL FUNDS (continued)

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, 2006 was \$15,925,000, and \$8,357,710, 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, headwork 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, 2006 was \$11,795,000, and \$3,994,131, 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

Grants

Amounts received or receivable from government agencies are subject to audit an adjustment by those agencies. The Authority has never experienced noncompliance and has never been subject to adjustments or refunds as a result of such audits.

**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.

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

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.

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.

CITY OF ERIE, PENNSYLVANIA
Combining Balance Sheet
Non-Major Governmental Funds
December 31, 2006

	<i>Special Revenue</i>		<i>Capital Projects</i>			<i>Total Non-Major Governmental Funds</i>
	<i>BUDAG</i>	<i>Liquid Fuels Tax Fund</i>	<i>General</i>		<i>Paving and Sewer Revolving Fund</i>	
	<i>Revolving Account</i>		<i>Obligation</i>	<i>Bond</i>		
ASSETS						
Cash and Cash Equivalents	\$ 511,053	\$ 1,664,727	\$ 3,294,818	\$ 139,379	\$ 5,609,977	
Receivables (net of allowance for uncollectibles):						-
Liens	-	-	-	55,823	55,823	
Notes	130,485	-	-	-	130,485	
Notes Receivable, net of current obligation	753,259	-	-	-	753,259	
Total Assets	\$ 1,394,797	\$ 1,664,727	\$ 3,294,818	\$ 195,202	\$ 6,549,544	
LIABILITIES						
Accounts Payable	\$ -	\$ 38,243	\$ 53,616	\$ 844	\$ 92,703	
Interfund Payable	-	-	24,831	-	24,831	
Deferred Revenue	-	-	-	55,823	55,823	
Other Liabilities	-	-	-	-	-	
Total Liabilities	-	38,243	78,447	56,667	173,357	
FUND BALANCES						
Reserved:						
Noncurrent Notes Receivable	753,259	-	-	-	753,259	
Unreserved:						
Undesignated	641,538	1,626,484	3,216,371	138,535	5,622,928	
Total Fund Balances	1,394,797	1,626,484	3,216,371	138,535	6,376,187	
Total Liabilities and Fund Equity	\$ 1,394,797	\$ 1,664,727	\$ 3,294,818	\$ 195,202	\$ 6,549,544	

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended December 31, 2006

	<i>Special Revenue</i>		<i>Capital Projects</i>		<i>Total Non-Major Governmental Funds</i>
	<i>BUDAG Revolving Account</i>	<i>Liquid Fuels Tax Fund</i>	<i>General Obligation Bond Fund</i>	<i>Paving and Sewer Revolving Fund</i>	
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	1,984,844	-	-	1,984,844
Charges for Services	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Interest Earnings	72,322	88,528	197,810	12,642	371,302
Miscellaneous	-	5,041	-	-	5,041
Total Revenues	<u>72,322</u>	<u>2,078,413</u>	<u>197,810</u>	<u>12,642</u>	<u>2,361,187</u>
EXPENDITURES					
Current:					
Highways and Streets	-	1,428,217	-	-	1,428,217
Capital Outlay	-	-	1,523,194	176,802	1,699,996
General Government	-	-	-	-	-
Economic and Community Development	124,129	-	-	-	124,129
Total Expenditures	<u>124,129</u>	<u>1,428,217</u>	<u>1,523,194</u>	<u>176,802</u>	<u>3,252,342</u>
Excess (Deficiency) of Revenues Over Expenditure	<u>(51,807)</u>	<u>650,196</u>	<u>(1,325,384)</u>	<u>(164,160)</u>	<u>(891,155)</u>
Net Change in Fund Balance	(51,807)	650,196	(1,325,384)	(164,160)	(891,155)
Fund Balance, January 1, 2006	1,446,604	976,288	4,541,755	302,695	7,267,342
Fund Balance, December 31, 2006	<u>\$ 1,394,797</u>	<u>\$ 1,626,484</u>	<u>\$ 3,216,371</u>	<u>\$ 138,535</u>	<u>\$ 6,376,187</u>

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

Proprietary Funds

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

Sewer Reserve – To account for amounts set aside for future improvements to the sewer infrastructure system.

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Assets
Non-Major Proprietary Funds
December 31, 2006

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 22,902	\$ 1,284,190	\$ 1,307,092
Prepaid items	-	-	-
Total Current Assets	<u>22,902</u>	<u>1,284,190</u>	<u>1,307,092</u>
Non-Current Assets:			
Capital Assets:			
Land	138,630	-	138,630
Buildings and Improvements	2,797,647	-	2,797,647
Improvements Other than Building	733,085	-	733,085
Equipment and Vehicles	660,991	-	660,991
Construction in Progress	-	-	-
Less Accumulated Depreciation & Impairment Reserve	(3,204,662)	-	(3,204,662)
Unamortized Bond Costs	-	-	-
Total Noncurrent Assets	<u>1,125,691</u>	<u>-</u>	<u>1,125,691</u>
Total Assets	<u>\$ 1,148,593</u>	<u>\$ 1,284,190</u>	<u>\$ 2,432,783</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 21,784	\$ -	\$ 21,784
Accrued Payroll and Related	1,565	-	1,565
Interfund Payable	681,177	-	681,177
Accrued Interest Payable	-	-	-
Compensated Absences Payable	3,981	-	3,981
Current Portion of Bonds Payable	41,600	-	41,600
Due to Other Governments	7,402	-	7,402
Total Current Liabilities	<u>757,509</u>	<u>-</u>	<u>757,509</u>
Noncurrent Liabilities:			
Compensated Absences Payable	-	-	-
Claims and Judgments Payable	-	-	-
Deferred Revenue	-	-	-
General Obligation Bonds Payable	2,168,400	-	2,168,400
Total Noncurrent Liabilities	<u>2,168,400</u>	<u>-</u>	<u>2,168,400</u>
Total Liabilities	<u>2,925,909</u>	<u>-</u>	<u>2,925,909</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(1,084,309)	-	(1,084,309)
Unrestricted	(693,007)	1,284,190	591,183
Total Net Assets	<u>(1,777,316)</u>	<u>1,284,190</u>	<u>(493,126)</u>
Total Liabilities and Net Assets	<u>\$ 1,148,593</u>	<u>\$ 1,284,190</u>	<u>\$ 2,432,783</u>

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-Major Proprietary Funds
For the Year Ended December 31, 2006

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
OPERATING REVENUES			
Intergovernmental Revenue	\$ -	\$ -	\$ -
Charges for Services	705,508	-	705,508
Lease Rental	-	-	-
Rental Income	190,024	-	190,024
Miscellaneous	8,568	-	8,568
Total Operating Revenues	<u>904,100</u>	<u>-</u>	<u>904,100</u>
OPERATING EXPENSES			
Personnel Services	366,435	-	366,435
Other Personnel Services	187,412	-	187,412
Services and Fees	46,272	-	46,272
Utilities	45,424	-	45,424
Rent	76,836	-	76,836
Insurance	8,120	-	8,120
Materials, Supplies, and Maintenance	101,952	-	101,952
Workers Compensation Claims and Other Claims	-	-	-
Depreciation and Amortization	200,252	-	200,252
Impairment Loss	1,408,220	-	1,408,220
Other Expenses	10,098	-	10,098
Total Operating Expenses	<u>2,451,021</u>	<u>-</u>	<u>2,451,021</u>
Operating Income (Loss)	<u>(1,546,921)</u>	<u>-</u>	<u>(1,546,921)</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	15,443	-	15,443
Investment Earnings	5,385	58,855	64,240
Interest Expense	(106,419)	-	(106,419)
Total Nonoperating Revenue (Expenses)	<u>(85,591)</u>	<u>58,855</u>	<u>(26,736)</u>
Total Income (Loss) Before Contributions and Transfers	<u>(1,632,512)</u>	<u>58,855</u>	<u>(1,573,657)</u>
Contributions	74,306	-	74,306
Transfers In	-	-	-
Transfers (Out)	-	-	-
Change in Net Assets	<u>(1,558,206)</u>	<u>58,855</u>	<u>(1,499,351)</u>
Net Assets, January 1, 2006	(131,592)	1,225,335	1,093,743
Prior Period Adjustments	(87,518)	-	(87,518)
Fund Equity (Deficit), December 31, 2006	<u>\$ (1,777,316)</u>	<u>\$ 1,284,190</u>	<u>\$ (493,126)</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.

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.

Emergency Municipal Services (Formally 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, 2006

ASSETS	<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	\$ -	\$ 330,294	\$ 1,989,248	\$ 2,238,292	\$ 4,557,834
Investments, at Fair Value					
Common Stocks	-	27,657,619	45,161,126	20,054,028	92,872,773
United States Government and Agency Obligations	-	15,243,702	15,825,767	13,050,189	44,119,658
Real estate investment trusts	-	-	1,115,281	12,402	1,127,683
Corporate Obligations	-	8,563,082	6,898,377	7,061,472	22,522,931
Registered Investment Companies - Mutual Fund	22,571,339	14,699,981	-	13,156,666	50,427,986
Short-Term Investments	-	2,335,200	-	-	2,335,200
Accrued Investment Income	-	293,775	317,518	254,292	865,585
Total Assets	<u>\$ 22,571,339</u>	<u>\$ 69,123,653</u>	<u>\$ 71,307,317</u>	<u>\$ 55,827,341</u>	<u>\$218,829,650</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 6,300	\$ 16,455	\$ 22,755
Total Liabilities	-	-	6,300	16,455	22,755
NET ASSETS					
Held in Trust for Employees' Pension Benefits	<u>22,571,339</u>	<u>69,123,653</u>	<u>71,301,017</u>	<u>55,810,886</u>	<u>218,806,895</u>
	<u>\$ 22,571,339</u>	<u>\$ 69,123,653</u>	<u>\$ 71,307,317</u>	<u>\$ 55,827,341</u>	<u>\$218,829,650</u>

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended December 31, 2006

ADDITIONS TO NET ASSETS	<i>Deferred Compensation</i>	<i>Officers' and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
Contributions					
Employer	\$ 726,154	\$ 1,584,552	\$ 909,353	\$ 1,170,958	\$ 4,391,017
City of Erie Water Authority	-	322,258	-	-	322,258
Plan Members	2,245,945	991,767	528,891	518,358	4,284,961
Total Contributions	<u>2,972,099</u>	<u>2,898,577</u>	<u>1,438,244</u>	<u>1,689,316</u>	<u>8,998,236</u>
Investment Earnings					
Net Appreciation in Fair Value of Investments	-	3,143,297	3,516,983	2,784,399	9,444,679
Interest and Dividends	2,114,332	3,079,867	2,735,615	2,564,906	10,494,720
Other Investment Income	-	-	-	-	-
Less: Investment Expenses	-	(230,884)	(277,853)	(184,553)	(693,290)
Total Investment Earnings	<u>2,114,332</u>	<u>5,992,280</u>	<u>5,974,745</u>	<u>5,164,752</u>	<u>19,246,109</u>
Total Additions To Net Assets	<u>5,086,431</u>	<u>8,890,857</u>	<u>7,412,989</u>	<u>6,854,068</u>	<u>28,244,345</u>
DEDUCTIONS FROM NET ASSETS					
Benefits Paid	2,795,145	4,628,118	6,356,849	4,151,558	17,931,670
Participant Refunds	-	476,029	1,548	-	477,577
Administrative Expenses	114,060	130,362	75,425	59,634	379,481
Total Deductions From Net Assets	<u>2,909,205</u>	<u>5,234,509</u>	<u>6,433,822</u>	<u>4,211,192</u>	<u>18,788,728</u>
Net Increase (Decrease) to Net Assets	2,177,226	3,656,348	979,167	2,642,876	9,455,617
NET ASSETS HELD IN TRUST					
Net Assets, January 1, 2006	<u>20,394,113</u>	<u>65,467,305</u>	<u>70,321,850</u>	<u>53,168,010</u>	<u>209,351,278</u>
Net Assets, December 31, 2006	<u>\$ 22,571,339</u>	<u>\$ 69,123,653</u>	<u>\$ 71,301,017</u>	<u>\$ 55,810,886</u>	<u>\$ 218,806,895</u>

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Assets and Liabilities - Agency Funds
December 31, 2006

	<i>Balance at January 1, 2006</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2006</i>
TRAFFIC COURT STATE AND COUNTY FINES				
Assets				
Cash and Cash Equivalents	\$ 51	\$ -	\$ -	\$ 51
Liabilities				
Accounts Payable	\$ 51	\$ -	\$ -	\$ 51
TRAFFIC COURT SECURITY BONDS				
Assets				
Cash and Cash Equivalents	\$ 920	\$ 1,537	\$ 1,607	\$ 850
Liabilities				
Accounts Payable	\$ 920	\$ 1,537	\$ 1,607	\$ 850
CABLE TELEVISION SECURITY DEPOSIT				
Assets				
Cash and Cash Equivalents	\$ 25,000	\$ -	\$ -	\$ 25,000
Liabilities				
Accounts Payable	\$ 25,000	\$ -	\$ -	\$ 25,000
UNCLAIMED MONIES				
Assets				
Cash and Cash Equivalents	\$ 7,424	\$ 4,097	\$ 4,959	\$ 6,562
Liabilities				
Accounts Payable	\$ 7,424	\$ 4,097	\$ 4,959	\$ 6,562
LAND LIGHTHOUSE SECURITY DEPOSIT				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Accounts Payable	\$ 500	\$ -	\$ -	\$ 500
PROPERTY TAX				
Assets				
Cash and Cash Equivalents	\$ 1,061,808	\$ 75,413,557	\$ 75,518,401	\$ 956,964
Liabilities				
Due to Other Governments	\$ 1,061,808	\$ 75,413,557	\$ 75,518,401	\$ 956,964

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)
December 31, 2006

	<i>Balance at January 1, 2006</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2006</i>
EARNED INCOME TAX FUND				
Assets				
Cash and Cash Equivalents	\$ 3,595,307	\$ 9,163,162	\$ 10,651,763	\$ 2,106,706
Liabilities				
Due to Other Governments	\$ 3,595,307	\$ 9,163,162	\$ 10,651,763	\$ 2,106,706
EMERGENCY MUNICIPAL SERVICES TAX FUND				
Assets				
Cash and Cash Equivalents	\$ 29,135	\$ 192,734	\$ 221,758	\$ 111
Liabilities				
Due to Other Governments	\$ 29,135	\$ 192,734	\$ 221,758	\$ 111
COMMUNITY SERVICES				
Assets				
Cash and Cash Equivalents	\$ 7,070	\$ 17,049	\$ 9,500	\$ 14,619
Liabilities				
Accounts Payable	\$ 7,070	\$ 17,049	\$ 9,500	\$ 14,619
FIRE INSURANCE ESCROW				
Assets				
Cash and Cash Equivalents	\$ 226,653	\$ 148,243	\$ 113,381	\$ 261,515
Liabilities				
Accounts Payable	\$ 226,653	\$ 148,243	\$ 113,381	\$ 261,515
DICKSON TAVERN RENOVATION				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Accounts Payable	\$ 500	\$ -	\$ -	\$ 500
TOTALS - ALL AGENCY FUNDS				
Assets				
Cash and Cash Equivalents	\$ 4,954,368	\$ 84,940,379	\$ 86,521,369	\$ 3,373,378
Liabilities				
Due to Other Governments	\$ 4,686,250	\$ 84,769,453	\$ 86,391,922	\$ 3,063,781
Accounts Payable	268,118	170,926	129,447	309,597
Total Liabilities	\$ 4,954,368	\$ 84,940,379	\$ 86,521,369	\$ 3,373,378

CITY OF ERIE, PENNSYLVANIA
 Net Assets by Component
 2006



Governmental activities	
Invested in capital assets, net of related debt	(29,508,258)
Restricted	10,800,861
Unrestricted	11,960,088
Total governmental activities net assets	<u>\$ (6,747,309)</u>
Business-type activities	
Invested in capital assets, net of related debt	23,988,617
Restricted	17,226,888
Unrestricted	3,814,895
Total business-type activities net assets	<u>\$ 45,030,400</u>
Primary government	
Invested in capital assets, net of related debt	(5,519,641)
Restricted	28,027,749
Unrestricted	15,774,983
Total primary government net assets	<u>\$ 38,283,091</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Changes in Net Assets
 2006



Expenses

Governmental activities:

General government	21,727,971
Public Safety	30,690,994
Highways and streets	5,831,886
Sanitation	317,078
Culture and Recreation	753,751
Economic and Community Development	8,410,937
Other	215,827
Interest on long-term debt	5,157,303
Total governmental activities expenses	<u>\$ 73,105,747</u>

Business-type activities:

Sewer	24,903,540
Water	558,843
Refuse	4,905,609
Golf	2,557,440
Total business-type activities expenses	<u>\$ 32,925,432</u>
Total primary government expenses	<u>\$ 106,031,179</u>

Program Revenues

Governmental activities:

Program revenues:	
Charges for services	434,899
Operating grants and contributions	26,503,270
Total governmental activities program revenues	<u>\$ 26,938,169</u>

Business-type activities:

Program revenues:	
Charges for services:	29,334,459
Operating grants and contributions	74,306
Total business-type activities program revenues	<u>\$ 29,408,765</u>
Total primary government program revenues	<u>\$ 56,346,934</u>

Net (Expense)/Revenue

Governmental activities	(46,167,578)
Business-type activities	(3,516,667)
Total primary government net expense	<u>\$ (49,684,245)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes	
Property Taxes, General Purposes	24,808,883
Income Taxes	12,721,450
Other taxes	2,193,094
Licenses and permits	2,564,601
Fines and penalties	1,866,603
Investment earnings	1,943,803
Transfers	2,520,263
Miscellaneous	-
Total governmental activities	<u>\$ 48,618,697</u>

Business-type activities:

Investment earnings	1,002,861
Lease Rental	2,631,440
Miscellaneous	796,917
Transfers	(2,520,263)
Total business-type activities	<u>\$ 1,910,955</u>
Total primary government	<u>\$ 50,529,652</u>

Change in Net Assets

Governmental activities	2,451,119
Business-type activities	(1,605,712)
Total primary government	<u>\$ 845,407</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Fund Balances
 2006



General Fund	
Reserved	-
Unreserved	(10,482,967)
Total general fund	<u>\$ (10,482,967)</u>
All Other Governmental Funds	
Reserved	10,800,861
Unreserved, reported in:	
Endowment Principal	7,750,000
Undesignated	18,144,464
Total all other governmental funds	<u>\$ 36,695,325</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Changes in Fund Balances
 2006



Revenues

Taxes	41,358,066
Licenses and permits	2,564,601
Intergovernmental	15,476,926
Charges for Services	434,899
Fines and penalties	1,866,603
Investment earnings	1,788,285
Payment in Lieu of Taxes	597,283
Miscellaneous	1,570,373
Total Revenues	<u>\$ 65,657,036</u>

Expenditures

Current:	
General government	6,447,466
Public Safety	31,018,251
Highways and streets	8,497,794
Sanitation	351,382
Culture and Recreation	1,473,531
Economic and Community Development	7,439,564
Capital Outlay	1,797,081
Debt Service:	
Principal	5,700,324
Interest	3,537,789
Total Expenditures	<u>\$ 66,263,182</u>

Excess (Deficiency) of Revenues over Expenditures (606,146)

Other Financing Sources and (Uses)

Operating Transfers In	2,614,647
Operating Transfers (Out)	(52,228)
Total Other Financing Sources and (Uses)	<u>\$ 2,562,419</u>

Net Change in Fund Balances 1,956,273

Debt service as a % of noncapital expenditures 14.33%

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA

Assessed Value and Estimated Actual Value of Taxable Property

2006



Fiscal Year	Residential Property	Commercial Property	Industrial Property	Tax Exempt Property	Total Taxable		Total Direct Tax Rate
					Assessed Value	Tax Rate	
2006	1,865,389,878	599,064,318	101,998,980	953,844,540	2,566,453,176	\$	10.21

CITY OF ERIE, PENNSYLVANIA
 Direct and Overlapping Property Tax Rates
 2006
 (rate per \$1,000 of assessed value)



City Direct Rates				Overlapping Rates	
Fiscal Year	Basic Rate	General Obligation Debt Service	Total Direct Rate	Eric School District	Erie County
2006	\$7.87	\$2.34	\$10.21	\$17.0687	\$4.95

Source: City of Erie Finance Office
 City of Erie Treasurer's Office

CITY OF ERIE, PENNSYLVANIA
 Principal Property Tax Payers
 2006



<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Baldwin Brothers	\$ 36,898,320	1.44%
Erie Insurance	32,654,550	1.27%
Catherine and Adam Levin Trust	13,702,400	0.53%
Benderson Eric (Tops)	11,495,300	0.45%
Inland Southeast	10,140,700	0.40%
Lord Corporation	8,879,600	0.35%
Four C's LLC DBA Penn Four C's	8,597,500	0.33%
Bayside Development	8,037,840	0.31%
Missouri River Corp.	7,900,000	0.31%
Joseph Prischak	7,427,200	0.29%
	<u>\$ 145,733,410</u>	<u>5.68%</u>

Source: Erie County Assessment Office

CITY OF ERIE, PENNSYLVANIA
 Property Tax Levies and Collections
 2006



<u>Fiscal Year</u>	<u>Taxes Levied in Fiscal Year</u>	<u>Collected within Fiscal Year</u>	<u>Percentage of Levy</u>	<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	<u>Percentage of Levy</u>
2006	\$ 26,203,487	\$ 23,641,059	90.22%	-	\$ 25,148,512	95.97%

Source: City of Erie Finance Office
 Pennsylvania State Tax Equalization Board

CITY OF ERIE, PENNSYLVANIA
 Ratios of Outstanding Debt by Type
 2006



Fiscal Year	Governmental Activities		Business-type Activities		Total Primary Government	Percentage of Per Capita Income	Per Capita
	General Obligation Bonds	Other Bonds (Revenue, Special Assessment, etc.)	General Obligation Bonds	Other			
2006	\$ 90,007,098	\$ -	\$ 19,513,363	\$ 2,210,000	\$111,730,461	4.03%	\$ 1,088.86

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Ratios of General Bonded Debt Outstanding
 2006



<u>General Bonded Debt Outstanding</u>					
<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Other Bonds (Revenue, Special Assessment, etc.)</u>	<u>Total</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
2006	\$ 109,520,461	\$ -	\$ 109,520,461	4.27%	\$ 1,067.33

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA

Direct and Overlapping Governmental Activities Debt
2006



<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Erie 1998 General Obligation Bond (A)	\$ 2,700,000	100.00%	\$ 2,700,000
1998 General Obligation Bond (B)	22,805,744	100.00%	22,805,744
2001 General Obligation Bond (A)	2,485,000	100.00%	2,485,000
2001 General Obligation Bond (B)	7,285,700	100.00%	7,285,700
2001 General Obligation Bond (C)	10,599,708	100.00%	10,599,708
2001 General Obligation Bond (D)	18,485,000	100.00%	18,485,000
2001 General Obligation Bond (E)	7,562,800	100.00%	7,562,800
2001 General Obligation Bond (F)	7,970,400	100.00%	7,970,400
2003 General Obligation term note	350,000	100.00%	350,000
2004 General Obligation Bond (A)	7,862,326	100.00%	7,862,326
2004 General Obligation Bond (B)	1,870,000	100.00%	1,870,000
Leases	30,420	100.00%	30,420
Total City Direct Debt	\$ 90,007,098		\$ 90,007,098
County of Erie	\$ 69,580,000	23.62%	\$ 16,434,796
Erie School District	\$ 117,123,559	100.00%	\$ 117,123,559
Erie Sewer Authority	\$ 52,741,217	100.00%	\$ 52,741,217
Erie Parking Authority	\$ 29,015,000	100.00%	\$ 29,015,000
Erie Water Authority	\$ 138,964,971	70.00%	\$ 97,275,480
Total Overlapping Debt	\$ 407,424,747		\$ 312,590,052
Total Direct and Overlapping Debt			\$ 402,597,150

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Computation of Legal Debt Margin
 2006



Nonelectoral Debt Incurring Capacity:

Borrowing base(1)	\$	77,642,529
Percentage limitation		250
Net nonelectoral debt limit	\$	194,106,323
Less: net nonelectoral debt incurred		90,007,098
Add: current principal appropriation		5,565,000
Remaining nonelectoral debt incurring capacity	\$	<u>109,664,225</u>

Nonelectoral Plus Lease Rental Debt Incurring Capacity:

Borrowing base(1)	\$	77,642,529
Percentage limitation		350
Net nonelectoral plus lease rental debt limit	\$	271,748,852
Less: net nonelectoral debt plus lease rental debt incurred		310,728,286
Add: current principal appropriation		6,250,886
Remaining nonelectoral plus lease rental debt incurring capacity	\$	<u>(32,728,548)</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
Demographic and Economic Statistics
2006



Year:	2006
Population	102,612 *
Personal Income (thousands of dollars)	2,770,421
Per Capita Personal Income (dollars)	26,999
Median Age	34.0
High School Graduate, % of persons age 25+	79.9
Bachelor's degree or higher, % of persons age 25+	17.4
Unemployment Rate	5.20%

Sources: Population, median age and education level information provided by the U.S. Census Bureau and U.S. Department of Education. Unemployment and income information furnished by the U.S. Department of Commerce: Bureau of Economic Analysis, CNN, Money.Com and CensusScope.Org

* Population figures are from the last census estimate conducted in July 2005.

CITY OF ERIE, PENNSYLVANIA
 Principal Employers
 2006



Employer	Industry	Employees	** Percentage of Total MSA
			Employment
*General Electric Company	Locomotives, DC Motors, Generators	4,000	3.08%
Hamot Medical Center	Health Care	2,500	1.92%
Saint Vincent Health Center	Health Care	2,274	1.75%
Erie Insurance Group	Insurance, Risk Management	2,100	1.62%
Erie School District	Public School Facilities	1,615	1.24%
Gertrude Barber Center	Special Education Facility	1,027	0.79%
Gannon University	Higher Education	713	0.55%
City of Erie	Government	669	0.51%
Lord Corporation	Aerospace and Industrial Products	650	0.50%
Telatron Marketing Group	Telemarketing	625	0.48%

Source: Erie Regional Chamber and Growth Partnership

* Employer is located outside of the city limits but has a major economic impact on the City of Erie.

** Employment statistics provided by the U.S. and Pennsylvania Departments of Labor are based on Metropolitan Statistical Areas (MSA) and not on the City of Erie city limits.

CITY OF ERIE, PENNSYLVANIA

Full-time City Government Employess by Function/Department
2006



<u>Function/Department</u>	<u>Full-time Employees</u>
General Government	
Administration	20
Controller's Office	3
Treasurer's Office	6
Finance	11
Economic and Community Development	13
Other	10
Police	
Officers	167
Civilians	42
Fire	
Firefighters and Officers	134
Civilians	16
Public Works	
Code Enforcement	14
Engineering	7
Streets	48
Parks & Recreation	11
Golf	3
Refuse	39
Sewer	92
Other	33
Total:	669

Source: City of Erie Finance Office