



2008  
COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT

YEAR ENDING DECEMBER 31, 2008

CITY OF ERIE  
PENNSYLVANIA

Joseph E. Sinnott, Mayor

CITY OF ERIE, PENNSYLVANIA

Comprehensive Annual Financial Report



Prepared By:

Department of Administration and Finance



**CITY OF ERIE, PENNSYLVANIA**  
**Comprehensive Annual Financial Report**

**Year ended December 31, 2008**

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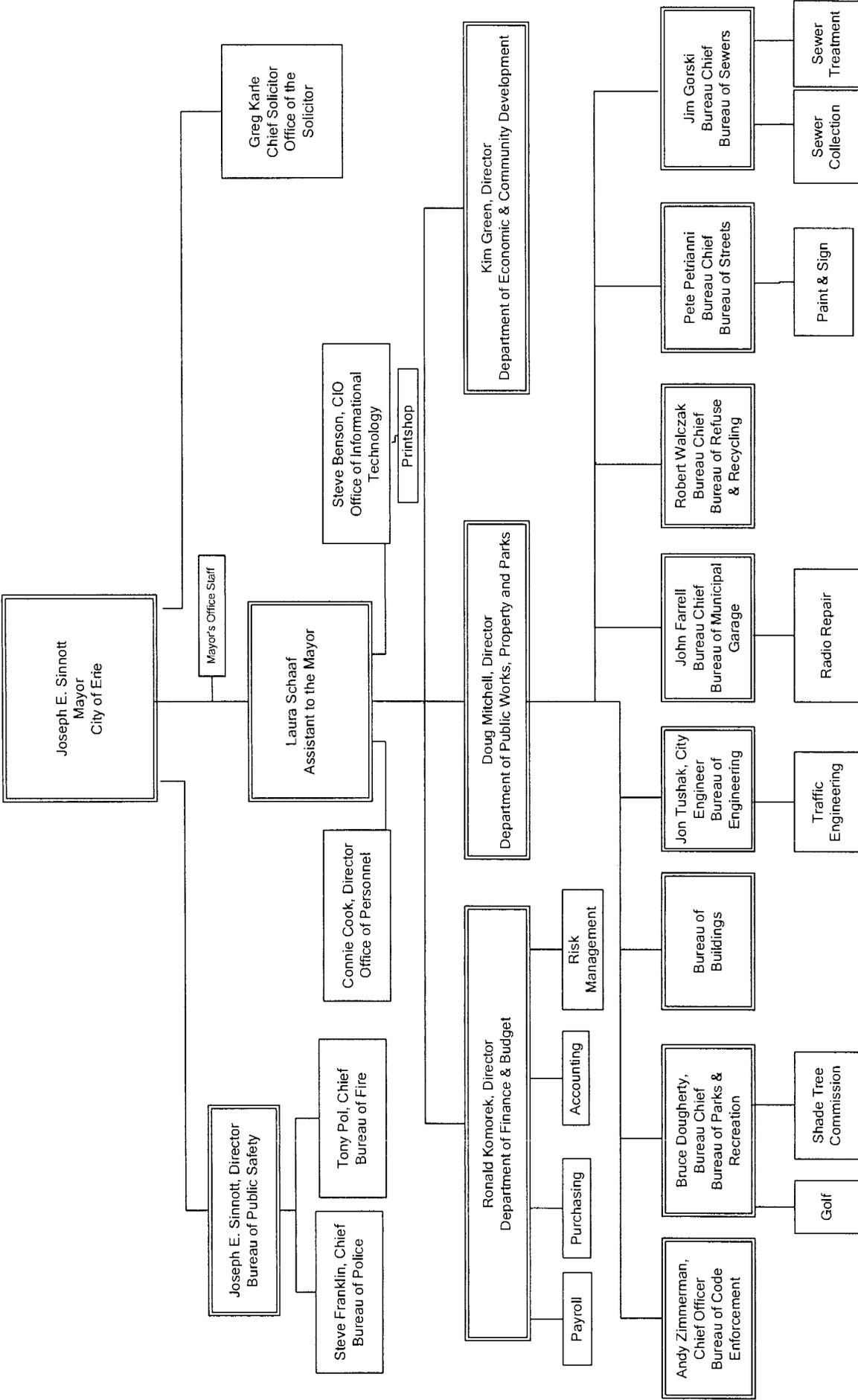
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**CITY OF ERIE, PENNSYLVANIA**

Comprehensive Annual Financial Report  
Year ended December 31, 2008

**PRINCIPAL CITY OFFICIALS**

**MAYOR**

Joseph E. Sinnott

**CITY COUNCIL**

Curtis Jones, Jr., President

Mark Aleksandrowicz

Jessica Horan-Kunco

Patrick Cappabianca

Joseph Schember

Rubye Jenkins-Husband

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



## 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, 2008, 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, which represent 23 percent, 36 percent, and 18 percent, respectively, of the assets, net assets, and revenues. 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, based on our audit and the reports of other auditors, 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, 2008, 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 required supplementary information, such as management's discussion and analysis on pages 5 through 14 and the schedule of funding progress on page 87 and the budget comparison schedule on page 88 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.

As discussed in Note B, the City has a General Fund deficit fund balance of \$829,193 and \$5,615,690 at December 31, 2008 and 2007, respectively. In 2007, the City began to reduce the deficit in the General Fund; however, having a deficit at December 31, 2008 still remains an important issue for the City to address. 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.

*McGill, Power, Bell & Associates, LLP*

**McGill, Power, Bell & Associates, LLP**  
Erie, Pennsylvania  
January 14, 2010

**CITY OF ERIE, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008**

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, 2008. 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 City's net assets increased as a result of this year's operations. On a government-wide basis including all governmental activities and business-type activities, but excluding component units, the assets of the City of Erie exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$62.5 million. This represents an increase of 12.2% over last fiscal year's net assets of \$55.6 million.
- In 2008, the property tax rate remained unchanged at 11.45 mills, with 84% being allocated to general fund activities and 16% being allocated for debt service.
- The Minimum Municipal Obligation payment increased to \$5.8 million in 2008, a 3% increase over the prior year. The calculation of this payment was based on the January 1, 2005 Original Actuarial Valuation Report.
- The City recognized its OPEB (Other Post Employment Benefits) liability this year. The actuarial accrued liability as of December 31, 2008 is estimated to be \$17.3 million and the Annual Required Contribution (ARC) is \$2.9 million. The City finances OPEB on a pay-as-you-go basis and therefore recognized only the Annual Required Contribution at December 31, 2008 in accordance with GASB 45.

**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 the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

Other non-financial 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, as well as the Erie Sewer Authority which is being reported here as a blended component unit. The City also leases its water lines to a separate and distinct Water Authority.
- **Component Units** – The City includes three separate legal entities in its report – Redevelopment Authority of the City of Erie, Erie Metropolitan Transit Authority and Erie Parking 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. The City also includes one entity as a blended component unit in its report – Erie Sewer Authority. 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.

## 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 are 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 non-major fund presentation. Individual fund data from each of these non-major 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, 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 \$62.5 million (excess of total assets over total liabilities) as of December 31, 2008. Analyzing the net assets of governmental and business-type activities separately, the governmental activities are \$23.8 million and business-type activities are \$38.7 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 (65%) 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)

	<u>Governmental Activities</u>		<i>% Inc</i>	<u>Business-Type Activities</u>		<i>% Inc</i>	<u>Total</u>		<i>% Inc</i>
	2008	2007	(Dec)	2008	2007	(Dec)	2008	2007	(Dec)
Current and other assets	\$ 56,556	\$ 50,685	12%	\$ 29,541	\$ 30,040	-2%	\$ 86,097	\$ 80,725	7%
Capital assets	63,796	61,627	4%	93,123	98,201	-5%	156,919	159,828	-2%
Total assets	<u>120,352</u>	<u>112,312</u>	7%	<u>122,664</u>	<u>128,241</u>	-4%	<u>243,016</u>	<u>240,553</u>	1%
Current and other liabilities	24,152	22,890	6%	13,548	14,118	-4%	37,700	37,008	2%
Long-term liabilities	72,427	77,961	-7%	70,422	69,988	1%	142,849	147,949	-3%
Total liabilities	<u>96,579</u>	<u>100,851</u>	-4%	<u>83,970</u>	<u>84,106</u>	0%	<u>180,549</u>	<u>184,957</u>	-2%
Net assets:									
Invested in capital assets, net of related debt	(18,297)	(24,536)	-25%	24,934	25,687	-3%	6,637	1,151	477%
Restricted	14,195	13,264	7%	15,417	16,499	-7%	29,612	29,763	-1%
Unrestricted	27,875	22,733	23%	(1,657)	1,949	-185%	26,218	24,682	6%
Total net assets	<u>\$ 23,773</u>	<u>\$ 11,461</u>	107%	<u>\$ 38,694</u>	<u>\$ 44,135</u>	-12%	<u>\$ 62,467</u>	<u>\$ 55,596</u>	12%

## Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance.

You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Table 3 presents the cost of each of the City's seven programs – General Government, Public Safety, Highways and Streets, Sanitation, Culture and Recreation, Economic and Community Development – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 2**

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

	<i>Governmental Activities</i>		<i>% Inc (Dec)</i>	<i>Business-Type Activities</i>		<i>% Inc (Dec)</i>	<i>Total</i>		<i>% Inc (Dec)</i>
	<i>2008</i>	<i>2007</i>		<i>2008</i>	<i>2007</i>		<i>2008</i>	<i>2007</i>	
<b>Revenues</b>									
<b>Program Revenues:</b>									
Charges for services	\$ 446	\$ 479	-7%	\$29,137	\$29,996	-3%	\$29,583	\$30,475	-3%
Operating grants and contributions	19,684	31,019	-37%	-	-	0%	19,684	31,019	-37%
<b>General revenues:</b>									
Property tax	31,751	29,751	7%	-	-	0%	31,751	29,751	7%
Income tax	13,227	17,441	-24%	-	-	0%	13,227	17,441	-24%
Other	907	1,439	-37%	-	-	0%	907	1,439	-37%
Other general revenues	5,939	6,878	-14%	4,613	5,235	-12%	10,552	12,113	-13%
Total revenues	<u>71,954</u>	<u>87,007</u>	-17%	<u>33,750</u>	<u>35,231</u>	-4%	<u>105,704</u>	<u>122,238</u>	-14%
<b>Expenses</b>									
General government	16,570	21,288	-22%	-	-	0%	16,570	21,288	-22%
Public safety	28,715	33,925	-15%	-	-	0%	28,715	33,925	-15%
Highway and streets	9,628	9,337	3%	-	-	0%	9,628	9,337	3%
Sanitation	16	38	-58%	-	-	0%	16	38	-58%
Culture and recreation	1,601	1,424	12%	-	-	0%	1,601	1,424	12%
Economic and community development	4,717	4,659	1%	-	-	0%	4,717	4,659	1%
Other	831	401	107%	-	-	0%	831	401	107%
Interest on long-term debt	4,632	4,935	-6%	-	-	0%	4,632	4,935	-6%
Sewer	-	-	0%	25,924	26,217	-1%	25,924	26,217	-1%
Water	-	-	0%	558	558	0%	558	558	0%
Refuse	-	-	0%	4,877	4,896	0%	4,877	4,896	0%
Other proprietary funds	-	-	0%	851	863	-1%	851	863	-1%
Total expenses	<u>66,710</u>	<u>76,007</u>	-12%	<u>32,210</u>	<u>32,534</u>	-1%	<u>98,920</u>	<u>108,541</u>	-9%
<b>Excess (deficiency) of revenues over expenses before capital contributions and transfers</b>									
	5,244	11,000		1,540	2,697		6,784	13,697	
<b>Transfers</b>									
	6,981	3,576	95%	(6,981)	(3,576)	95%	-	-	0%
Increase (decrease) in net assets	12,225	14,576	-16%	(5,441)	(879)	519%	6,784	13,697	-50%
Net Assets - Beginning of Year	<u>11,548</u>	<u>(3,115)</u>		<u>44,135</u>	<u>45,014</u>		<u>55,683</u>	<u>41,899</u>	
Net Assets - End of Year	<u>\$23,773</u>	<u>\$11,461</u>		<u>\$38,694</u>	<u>\$44,135</u>		<u>\$62,467</u>	<u>\$55,596</u>	

**Table 3**

City of Erie, Pennsylvania Governmental Activities (amounts expressed in thousands)						
	<i>Total Cost of Services</i>		<i>% Inc</i>	<i>Net Cost of Services</i>		<i>% Inc</i>
	<i>2008</i>	<i>2007</i>	<i>(Dec)</i>	<i>2008</i>	<i>2007</i>	<i>(Dec)</i>
Governmental Activities:						
General government	\$ 16,570	\$ 21,288	-22%	\$ (8,896)	\$ (7,772)	14%
Public safety	28,716	33,925	-15%	(27,532)	32,766	-184%
Highways and streets	9,628	9,337	3%	(7,156)	9,109	-179%
Sanitation	16	38		728	38	
Culture and recreation	1,601	1,423	13%	(1,564)	1,420	-210%
Economic and community development	4,717	4,659	1%	3,302	6,658	-50%
Other governmental funds	831	401	107%	(831)	401	-307%
Totals	\$ 62,079	\$ 71,071	-13%	\$ (41,949)	\$ 42,620	-198%

*Business-Type Activities.* Business-type activities decreased the City's net assets by \$3,835,260 for the current year. The City's sewer system recorded charges for services of \$23 million and reported a net operating loss.

**Table 4**

City of Erie, Pennsylvania Business Activities (amounts expressed in thousands)						
	<i>Total Cost of Services</i>		<i>% Inc</i>	<i>Net Cost of Services</i>		<i>% Inc</i>
	<i>2008</i>	<i>2007</i>	<i>(Dec)</i>	<i>2008</i>	<i>2007</i>	<i>(Dec)</i>
Business-Type Activities:						
Sewer	\$ 25,923	\$ 26,218	-1%	\$ (2,584)	\$ (2,300)	12%
Water	558	558	0%	(558)	(558)	0%
Refuse	4,877	4,896	0%	462	708	-35%
Other proprietary funds	851	863	-1%	(393)	(388)	1%
Totals	\$ 32,209	\$ 32,535	-1%	\$ (3,073)	\$ (2,538)	21%

## CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets.* The City's investment in capital assets as of December 31, 2008, amounted to \$156.9 million (net of accumulated depreciation). This investment, detailed in Table 5, in a broad range of capital assets including police and fire equipment, buildings, streets, water and sewer lines. This amount represents a net decrease (including additions and deductions) of \$2.9 million or a 1.8% decrease from the prior year.

**Table 5**

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 11,412	\$ 11,412	\$ 731	\$ 731	\$ 12,143	\$ 12,143
Building and improvements	165	1,090	44,013	49,579	44,178	50,669
Improvements other than buildings	6,508	5,788	22,592	23,755	29,100	29,543
Equipment and vehicles	9,587	9,426	25,787	24,135	35,374	33,561
Infrastructure	36,124	33,911	-	-	36,124	33,911
Capital assets, net	<u>\$ 63,796</u>	<u>\$ 61,627</u>	<u>\$ 93,123</u>	<u>\$ 98,200</u>	<u>\$ 156,919</u>	<u>\$ 159,827</u>

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

- Through a court order, the City is required to complete the installation of new curb cuts and the retrofitting of older curbs in the City of Erie. As of December 31, 2008, the project was 54% complete.
- During 2006, the City of Erie permanently closed the Erie Golf Course and then in 2007, the City began talks with Millcreek Township and the Airport Authority to take over operation of the Course and the associated debt. On September 9, 2008 in a related deal with the Airport Authority, the Township agreed to take ownership of the Course. On April 24, 2009, the Erie Golf Course was sold and the City of Erie received \$2,149,750 from the sale. From the proceeds, \$2,125,485 will be used to pay off golf course renovation related debt. The balance of \$24,265 will be used for the payment of remediation work on the Course, which is the responsibility of the City.
- During 2008, the Sewer Fund purchased a custom truck, in the amount of \$215,000, with 3 remote control cameras. This equipment will be used to more cost effectively diagnose sewer pipe problems.

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

*Long-term Debt.* At the end of current year, the City's total long-term debt outstanding is \$155.8 million. This amount was largely comprised of \$153 million in general obligation bonds.

**Table 6**

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the City)	\$ 81,810	\$ 85,852	\$ 71,548	\$ 73,489	\$ 153,358	\$ 159,341
Other loans	250	300	2,125	2,168	2,375	2,468
Capital leases	33	11	-	-	33	11
Total	<u>\$ 82,093</u>	<u>\$ 86,163</u>	<u>\$ 73,673</u>	<u>\$ 75,657</u>	<u>\$ 155,766</u>	<u>\$ 161,820</u>

The City's total long-term debt decreased by \$6.6 million, or 4.1%, during the current year.

*Bond Ratings.* The City's debt rating is A- by Standard & Poor's and Ba1 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 B of the basic financial statements.

**THE CITY'S FUNDS**

At the close of the City's year on December 31, 2008, the governmental funds of the City reported a combined fund balance of \$34.4 million. This ending balance includes an increase in fund balance of \$4.8 million in the City's General Fund. In addition, these other changes to fund balances should be noted:

- The City's Debt Service fund balance of \$8.7 million increased by \$900,000 from the prior year fund balance.
- The City spent \$1.8 million in capital outlay in the Capital Improvements and General Obligation Bond funds.
- The City forgave an inter-fund loan between General Fund and Capital Improvements Fund for \$1,500,000.
- The City's General Obligation Bond fund decreased by \$1.7 million, during the latest year thereby decreasing ending fund balance to \$790,000.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

For 2008, actual expenditures on a budgetary basis were \$50.1 million compared to the budget amount of \$52.9 million. The \$2.8 million positive variance was due to a concerted effort to reduce expenses.

For 2008, actual revenues on a budgetary basis were \$49.2 million as compared to the budget amount of \$48.7 million. This resulted in a positive variance of \$526,024.

The City of Erie has, on a budgetary basis, an actual General Fund deficit balance of \$829,193 as of the year end, compared to the budgeted balance of zero (including \$4.2 million in Operating Transfers In). (*See Budget Comparison Schedule – General Fund, page 88*) The variance in fund balance is due to the increase of revenues and the decrease of expenses compared with the budgeted amounts.

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

The City's elected and appointed officials considered many factors when setting the 2009 budget, such as tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$59.4 million. This represents an increase of \$2.3 million from the 2008 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for 2009 is 11.45 mills (.01145 per \$1,000 valuation). Of this tax rate 85 percent or 9.69 mills is utilized for General Fund activities. The remaining 15 percent or 1.76 mills is used for debt service. The General Fund's portion of property tax revenue for 2009 is estimated to be \$26.5 million, a decrease of \$300,000 from 2008.

## **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.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**December 31, 2008**  
**(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>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 18,719,739	\$ 6,004,831	\$ 24,724,570	\$ 4,123,648
Investments	4,652,421	2,862,211	7,514,632	293,623
Receivables (net of allowance for uncollectibles)	13,864,883	2,582,006	16,446,889	1,306,530
Internal Balances	843,659	(843,659)	-	-
Inventories	-	-	-	248,058
Prepaid Items	28,340	4,666,800	4,695,140	506,766
Restricted Assets:				
Cash and Cash Equivalents	3,889,733	11,439,483	15,329,216	3,471,803
Investments	4,055	721,734	725,789	4,248,966
Capital Assets:				
Non-depreciable	11,411,834	731,000	12,142,834	2,199,527
Depreciable (Net)	52,384,152	92,392,339	144,776,491	52,788,998
Bond Issue Costs (Net)	147,885	2,041,306	2,189,191	987,749
Long-Term Receivable	14,194,851	-	14,194,851	657,913
Net Pension Benefit Asset	210,379	66,538	276,917	387,316
Total Assets	<u>\$ 120,351,931</u>	<u>\$ 122,664,589</u>	<u>\$ 243,016,520</u>	<u>\$ 71,220,897</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,498,456	\$ 359,690	\$ 1,858,146	\$ 1,145,390
Accrued Liabilities	1,686,998	111,003	1,798,001	1,447,610
Accrued Interest Payable	14,420,371	3,931,847	18,352,218	450,995
Other Current Liabilities	5,167,780	-	5,167,780	1,953,773
Deferred Revenue	1,378,672	9,135,054	10,513,726	-
Due to Other Governments	-	10,728	10,728	-
Non-Current Liabilities				
Due Within One Year				
Compensated Absences	364,892	70,110	435,002	-
Bonds, Loans and Leases Payable	5,857,898	5,240,639	11,098,537	1,027,093
Due In More Than One Year				
Compensated Absences	3,176,872	610,409	3,787,281	-
Bonds, Loans and Leases Payable	61,814,884	64,500,334	126,315,218	29,221,154
Net OPEB Obligation	231,121	-	231,121	437,214
Claims Liabilities	981,355	-	981,355	-
Total Liabilities	<u>96,579,299</u>	<u>83,969,814</u>	<u>180,549,113</u>	<u>35,683,229</u>
<b>NET ASSETS</b>				
Invested in Capital Assets (net of related debt)	(18,297,167)	24,934,938	6,637,771	26,703,925
Restricted for:				
Noncurrent Notes Receivable	14,194,851	-	14,194,851	-
Other	-	15,416,703	15,416,703	7,721,487
Unrestricted	25,288,994	(1,656,866)	23,632,128	1,112,256
Designated for Capital Expenditures	240,742	-	240,742	-
Designated for Future Catastrophic Losses ( <i>Note B</i> )	2,345,212	-	2,345,212	-
Total Net Assets	<u>23,772,632</u>	<u>38,694,775</u>	<u>62,467,407</u>	<u>35,537,668</u>
Total Liabilities and Net Assets	<u>\$ 120,351,931</u>	<u>\$ 122,664,589</u>	<u>\$ 243,016,520</u>	<u>\$ 71,220,897</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**December 31, 2008**

Fund Balances – total governmental funds \$ 34,401,680

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

Prepaid assets 176,225

Net Pension Asset 210,379

resources and, therefore, are not reported in the funds. The cost of assets is \$111,815,177 and the accumulated depreciation is \$48,019,192. 63,795,986

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. 1,600,643

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, loans and leases payable (67,672,784)

Accrued interest on the bonds (14,420,371)

Deferred Revenue for items not earned at year end 4,269,538

Liabilities for accrued obligations (3,659,247)

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. 5,070,583

Net assets of governmental activities \$ 23,772,632

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**For the Year Ended December 31, 2008**  
**(and fiscal year ends of component units)**

<b>Functions/Programs</b>	<i>Program Revenues</i>			
	<i>Expenses</i>	<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
Governmental activities:				
General government	\$ 16,570,309	\$ 446,416	\$ 7,227,423	\$ -
Public safety	28,715,597	-	1,183,147	-
Highways and streets	9,628,386	-	2,472,626	-
Sanitation	15,742	-	744,078	-
Culture and recreation	1,600,804	-	37,159	-
Economic and community development	4,716,960	-	8,019,799	-
Other	830,878	-	-	-
Interest on long-term debt	4,631,566	-	-	-
<b>Total Governmental Activities</b>	<b>66,710,242</b>	<b>446,416</b>	<b>19,684,232</b>	<b>-</b>
Business-Type activities:				
Sewer	25,923,397	23,340,028	-	-
Water	557,767	-	-	-
Refuse	4,876,998	5,339,068	-	-
Other proprietary funds	851,069	457,968	-	-
<b>Total Business-Type Activities</b>	<b>32,209,231</b>	<b>29,137,064</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 98,919,473</b>	<b>\$ 29,583,480</b>	<b>\$ 19,684,232</b>	<b>\$ -</b>
Discretely presented component units	\$ 27,987,613	\$ 11,070,254	\$ 14,209,325	\$ 1,501,299

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities (Continued)**  
**For the Year Ended December 31, 2008**

<b>Functions/Programs</b>	<i>Net (Expense) Revenue and Changes In Net Assets</i>			<i>Discretely presented Component Units</i>
	<i>Primary Government</i>			
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
Governmental activities:				
General government	\$ (8,896,470)	\$ -	\$ (8,896,470)	\$ -
Public safety	(27,532,450)	-	(27,532,450)	-
Highways and streets	(7,155,760)	-	(7,155,760)	-
Sanitation	728,336	-	728,336	-
Culture and recreation	(1,563,645)	-	(1,563,645)	-
Economic and community development	3,302,839	-	3,302,839	-
Other	(830,878)	-	(830,878)	-
Interest on long-term debt	(4,631,566)	-	(4,631,566)	-
Total Governmental Activities	(46,579,594)	-	(46,579,594)	-
Business-Type activities:				
Sewer	-	(2,583,369)	(2,583,369)	-
Water	-	(557,767)	(557,767)	-
Refuse	-	462,070	462,070	-
Other proprietary funds	-	(393,101)	(393,101)	-
Total Business-type Activities	-	(3,072,167)	(3,072,167)	-
Total Primary Government	\$ (46,579,594)	\$ (3,072,167)	\$ (49,651,761)	\$ -
Discretely presented component units				\$ (1,206,735)
General Revenues:				
Taxes:				
Property Taxes	\$ 31,750,540	\$ -	\$ 31,750,540	\$ -
Income Taxes	13,227,203	-	13,227,203	-
Other	906,901	-	906,901	-
Licenses and Permits	3,562,406	-	3,562,406	-
Fines and Forfeits	1,611,162	-	1,611,162	-
Investment Income	7,083	721,150	728,233	458,912
Lease Rental	-	2,857,878	2,857,878	-
Miscellaneous	758,448	1,033,955	1,792,403	63,067
Transfers	6,980,588	(6,980,588)	-	-
<b>Total General Revenues, Transfers,</b>	<b>58,804,331</b>	<b>(2,367,605)</b>	<b>56,436,726</b>	<b>521,979</b>
Changes in net assets	12,224,737	(5,439,772)	6,784,965	(684,756)
Net assets - Beginning of Year (Restated)	11,547,895	44,134,547	55,682,442	36,222,424
Net assets - End of Year	\$ 23,772,632	\$ 38,694,775	\$ 62,467,407	\$ 35,537,668

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**

**Balance Sheet  
Governmental Funds  
December 31, 2008**

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 6,654,401	\$ 3,876,626	\$ -	\$ 1,525,587
Investments	-	-	-	-
Restricted Cash and Cash Equivalents	92,799	-	-	-
Receivables (net of allowance for uncollectibles):				
Property Tax	4,230,194	820,450	-	-
Earned Income and Local Services Tax	1,729,334	1,139,016	-	-
Liens	70,633	-	255,872	-
Intergovernmental	179,217	-	230,819	322,361
Interfund	3,056,753	10,384,154	-	-
Notes	-	-	-	475,836
Other	201,136	-	-	-
Notes Receivable, net of current obligation	-	-	8,219,244	5,561,500
<b>Total Assets</b>	<b>\$ 16,214,467</b>	<b>\$ 16,220,246</b>	<b>\$ 8,705,935</b>	<b>\$ 7,885,284</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 200,959	\$ -	\$ 257,017	\$ 5,956
Accrued Payroll and Related	1,291,437	-	-	490
Interfund Payable	10,451,930	2,001,387	-	7,399
Compensated Absences Payable	364,892	-	-	-
Deferred Revenue	4,665,699	820,455	255,872	680,688
Other Liabilities	68,743	4,666,800	-	-
<b>Total Liabilities</b>	<b>17,043,660</b>	<b>7,488,642</b>	<b>512,889</b>	<b>694,533</b>
<b>FUND BALANCES</b>				
Reserved:				
Noncurrent Notes Receivable	-	-	8,219,244	5,561,500
Unreserved:				
Designated for Capital Expenditures	-	240,742	-	-
Undesignated (Deficit)	(829,193)	8,490,862	(26,198)	1,629,251
<b>Total Fund Balances</b>	<b>(829,193)</b>	<b>8,731,604</b>	<b>8,193,046</b>	<b>7,190,751</b>
<b>Total Liabilities and Fund Equity (Deficit)</b>	<b>\$ 16,214,467</b>	<b>\$ 16,220,246</b>	<b>\$ 8,705,935</b>	<b>\$ 7,885,284</b>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Balance Sheet (Continued)**  
**Governmental Funds**  
**December 31, 2008**

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 321,043	\$ 3,408,727	\$ 15,786,384
Investments	4,652,421	-	4,652,421
Restricted Cash and Cash Equivalents	-	-	92,799
Receivables (net of allowance for uncollectibles):			
Property Tax	-	-	5,050,644
Earned Income and Local Services Tax	-	-	2,868,350
Liens	-	33,951	360,456
Intergovernmental	2,500,000	-	3,232,397
Interfund	43,311	-	13,484,218
Notes	-	66,834	542,670
Other	-	-	201,136
Notes Receivable, net of current obligation	-	414,106	14,194,850
Total Assets	\$ 7,516,775	\$ 3,923,618	\$ 60,466,325
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ 248,139	\$ 712,071
Accrued Payroll and Related	-	-	1,291,927
Interfund Payable	6,000	24,831	12,491,547
Compensated Absences Payable	-	-	364,892
Deferred Revenue	12,000	33,951	6,468,665
Other Liabilities	-	-	4,735,543
Total Liabilities	18,000	306,921	26,064,645
<b>FUND BALANCES</b>			
Reserved:			
Noncurrent Notes Receivable	-	414,106	14,194,850
Unreserved:			
Designated for Endowment Principal	-	-	240,742
Undesignated (Deficit)	7,498,775	3,202,591	19,966,088
Total Fund Balances	7,498,775	3,616,697	34,401,680
Total Liabilities and Fund Equity (Deficit)	\$ 7,516,775	\$ 3,923,618	\$ 60,466,325

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2008**

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
<b>REVENUES</b>				
Taxes	\$ 36,576,591	\$ 6,766,487	\$ -	\$ -
Licenses and Permits	3,562,406	-	-	-
Intergovernmental	6,313,749	-	7,263,785	1,175,653
Charges for Services	446,416	-	-	-
Fines and Forfeits	1,611,162	-	-	-
Investment Income	355,977	94,089	91,584	197,370
Miscellaneous	383,216	2,200	22,886	68,463
Total Revenues	<u>49,249,517</u>	<u>6,862,776</u>	<u>7,378,255</u>	<u>1,441,486</u>
<b>EXPENDITURES</b>				
Current:				
General Government	7,215,423	-	-	-
Public Safety	33,439,166	-	296,144	441,473
Highways and Streets	8,018,843	-	635,667	-
Sanitation	-	-	-	15,742
Culture and Recreation	1,455,567	-	693,084	73,046
Economic and Community Development	-	-	5,019,180	469,220
Capital Outlay	-	-	-	265,447
Debt Service:				
Principal	-	5,634,765	-	-
Interest	-	3,164,315	-	-
Total Expenditures	<u>50,128,999</u>	<u>8,799,080</u>	<u>6,644,075</u>	<u>1,264,928</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(879,482)</u>	<u>(1,936,304)</u>	<u>734,180</u>	<u>176,558</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,165,979	2,823,867	-	67,164
Operating Transfers (Out)	-	(9,258)	-	(22,000)
Total Other Financing Sources And (Uses)	<u>4,165,979</u>	<u>2,814,609</u>	<u>-</u>	<u>45,164</u>
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>				
Inter-Fund Loan Forgiveness	1,500,000	-	-	-
Total Special and Extraordinary Items	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	4,786,497	878,305	734,180	221,722
Fund Balance, (Deficit) January 1, 2008	(5,615,690)	7,853,299	7,372,177	6,969,029
Prior Period Adjustments	-	-	86,689	-
Fund Balance (Deficit), December 31, 2008	<u>\$ (829,193)</u>	<u>\$ 8,731,604</u>	<u>\$ 8,193,046</u>	<u>\$ 7,190,751</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended December 31, 2008**

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ 43,343,078
Licenses and Permits	-	-	3,562,406
Intergovernmental	-	2,129,580	16,882,767
Charges for Services	-	-	446,416
Fines and Forfeits	-	-	1,611,162
Investment Income	(1,054,817)	164,166	(151,631)
Miscellaneous	37,162	5,617	519,544
Total Revenues	<u>(1,017,655)</u>	<u>2,299,363</u>	<u>66,213,742</u>
<b>EXPENDITURES</b>			
Current:			
General Government	-	-	7,215,423
Public Safety	13,876	-	34,190,659
Highways and Streets	-	3,072,458	11,726,968
Sanitation	-	-	15,742
Culture and Recreation	-	-	2,221,697
Economic and Community Development	34,404	-	5,522,804
Capital Outlay	36,697	1,709,567	2,011,711
Debt Service:			
Principal	-	-	5,634,765
Interest	-	-	3,164,315
Total Expenditures	<u>84,977</u>	<u>4,782,025</u>	<u>71,704,084</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,102,632)</u>	<u>(2,482,662)</u>	<u>(5,490,342)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Operating Transfers In	-	-	7,057,010
Operating Transfers (Out)	-	(45,164)	(76,422)
Total Other Financing Sources And (Uses)	<u>-</u>	<u>(45,164)</u>	<u>6,980,588</u>
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>			
Inter-Fund Loan Forgiveness ( <i>Note B</i> )	(1,500,000)	-	-
Total Special and Extraordinary Items	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(2,602,632)</u>	<u>(2,527,826)</u>	<u>1,490,246</u>
Fund Balance (Deficit), January 1, 2008	10,101,407	6,144,523	32,824,745
Prior Period Adjustments	-	-	86,689
Fund Balance (Deficit), December 31, 2008	<u>\$ 7,498,775</u>	<u>\$ 3,616,697</u>	<u>\$ 34,401,680</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, 2008**

Net change in fund balances – total governmental funds \$ 1,490,246

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. 4,390,470

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. 5,582,391

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. (3,518,372)

Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 185,188

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. 3,026,220

The revenue and expenses of the internal service fund is reported with the governmental activities. 1,068,594

Change in net assets of governmental activities \$ 12,224,737

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2008**

	<i>Sewer Revenue</i>	<i>Water Revenue</i>	<i>Refuse and Recycling</i>	<i>Other Proprietary Funds</i>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 3,656,472	\$ -	\$ 1,573,782	\$ 670,540
Restricted Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Restricted Investments	-	-	-	-
Receivables (Net of Allowance for Uncollectibles):				
Accounts	1,183,009	-	634,814	-
Intergovernmental	545,718	-	-	-
Interfund	173,265	-	27,515	-
Other	48,254	-	-	-
Prepaid items	4,666,800	-	-	-
Total Current Assets	<u>10,273,518</u>	<u>-</u>	<u>2,236,111</u>	<u>670,540</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	21,500,966	35,211,685	-	733,085
Equipment and Vehicles	6,640,134	5,063,140	2,775,025	682,507
Construction in Progress	-	-	-	-
Less Accumulated Depreciation & Impairment Loss	(16,875,187)	(34,891,772)	(1,303,554)	(3,591,552)
Unamortized Bond Costs	201,453	-	-	-
Net Pension Asset	42,680	-	17,200	6,658
Total Noncurrent Assets	<u>12,836,104</u>	<u>13,899,200</u>	<u>1,488,671</u>	<u>766,975</u>
Total Assets	<u>\$ 23,109,622</u>	<u>\$ 13,899,200</u>	<u>\$ 3,724,782</u>	<u>\$ 1,437,515</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 128,528	\$ -	\$ 77,430	\$ 3,054
Accrued Payroll and Related	83,652	-	25,181	2,170
Interfund Payable	8,825	-	42,789	992,825
Accrued Interest Payable	3,750,317	-	-	-
Compensated Absences Payable	55,166	-	13,640	1,304
Current Portion of Bonds Payable	585,500	-	-	2,125,136
Due to Other Governments	-	-	-	10,728
Total Current Liabilities	<u>4,611,988</u>	<u>-</u>	<u>159,040</u>	<u>3,135,217</u>
Noncurrent Liabilities:				
Compensated Absences Payable	480,297	-	118,755	11,357
Claims and Judgments Payable	-	-	-	-
Deferred Revenue	56,444	9,078,610	-	-
General Obligation Bonds Payable	15,408,767	-	-	-
Total Noncurrent Liabilities	<u>15,945,508</u>	<u>9,078,610</u>	<u>118,755</u>	<u>11,357</u>
Total Liabilities	<u>20,557,496</u>	<u>9,078,610</u>	<u>277,795</u>	<u>3,146,574</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	(3,158,163)	13,899,200	1,488,671	(1,358,161)
Unrestricted	5,710,289	(9,078,610)	1,958,316	(350,898)
Designated for Future Catastrophic Losses ( <i>Note B</i> )	-	-	-	-
Total Net Assets	<u>2,552,126</u>	<u>4,820,590</u>	<u>3,446,987</u>	<u>(1,709,059)</u>
Total Liabilities and Net Assets	<u>\$ 23,109,622</u>	<u>\$ 13,899,200</u>	<u>\$ 3,724,782</u>	<u>\$ 1,437,515</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets (Continued)**  
**Proprietary Funds**  
**December 31, 2008**

	<i>Erie Sewer Authority</i>	<i>Totals</i>	<i>Governmental Activities - Internal Service</i>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 104,037	\$ 6,004,831	\$ 2,933,355
Restricted Cash and Cash Equivalents	11,439,483	11,439,483	3,796,934
Investments	2,862,211	2,862,211	-
Restricted Investments	721,734	721,734	4,055
Receivables (Net of Allowance for Uncollectibles):			
Accounts	161,847	1,979,670	-
Intergovernmental	-	545,718	-
Interfund	-	200,780	139,991
Other	8,364	56,618	8,582
Prepaid items	-	4,666,800	-
Total Current Assets	<u>15,297,676</u>	<u>28,477,845</u>	<u>6,882,917</u>
Non-Current Assets:			
Capital Assets:			
Land	-	731,000	-
Buildings and Improvements	37,318,651	49,366,133	-
Improvements Other than Building	74,639,390	132,085,126	-
Equipment and Vehicles	19,910,629	35,071,435	-
Less Accumulated Depreciation & Impairment Loss	(67,468,290)	(124,130,355)	-
Unamortized Bond Costs	1,839,853	2,041,306	-
Net Pension Asset	-	66,538	-
Total Noncurrent Assets	<u>66,240,233</u>	<u>95,231,183</u>	<u>-</u>
Total Assets	<u>\$ 81,537,909</u>	<u>\$ 123,709,028</u>	<u>\$ 6,882,917</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 150,678	\$ 359,690	\$ 146,901
Accrued Payroll and Related	-	111,003	395,071
Interfund Payable	-	1,044,439	289,007
Accrued Interest Payable	181,530	3,931,847	-
Compensated Absences Payable	-	70,110	-
Current Portion of Bonds Payable	2,530,003	5,240,639	-
Due to Other Governments	-	10,728	-
Total Current Liabilities	<u>2,862,211</u>	<u>10,768,456</u>	<u>830,979</u>
Noncurrent Liabilities:			
Compensated Absences Payable	-	610,409	-
Claims and Judgments Payable	-	-	981,355
Deferred Revenue	-	9,135,054	-
General Obligation Bonds Payable	49,091,567	64,500,334	-
Total Noncurrent Liabilities	<u>49,091,567</u>	<u>74,245,797</u>	<u>981,355</u>
Total Liabilities	<u>51,953,778</u>	<u>85,014,253</u>	<u>1,812,334</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	14,063,391	24,934,938	-
Restricted	15,416,703	15,416,703	-
Unrestricted	104,037	(1,656,866)	2,725,371
Designated for Future Catastrophic Losses ( <i>Note B</i> )	-	-	2,345,212
Total Net Assets	<u>29,584,131</u>	<u>38,694,775</u>	<u>5,070,583</u>
Total Liabilities and Net Assets	<u>\$ 81,537,909</u>	<u>\$ 123,709,028</u>	<u>\$ 6,882,917</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other		Erie Sewer Authority	Totals	Governmental Activities - Internal Service
				Proprietary Funds	Funds			
<b>OPERATING REVENUES</b>								
Intergovernmental Revenue	\$ 18,285,948	-	5,339,068	-	457,968	\$ 5,054,080	\$ 5,054,080	\$ 11,105,116
Charges for Services	-	2,857,878	-	-	-	-	24,082,984	-
Lease Rental	-	-	-	-	-	-	2,857,878	-
Rental Income	-	-	-	126,424	-	-	126,424	-
Miscellaneous	158,173	-	334,798	202	-	-	493,173	228,904
Total Operating Revenues	18,444,121	2,857,878	5,673,866	584,594	-	5,054,080	32,614,539	11,334,020
<b>OPERATING EXPENSES</b>								
Personnel Services	4,177,535	-	1,670,344	265,347	-	-	6,113,226	-
Other Personnel Services	2,124,945	-	840,124	94,935	-	-	3,060,004	-
Services and Fees	2,273,309	-	1,705,404	39,542	-	35,099	4,053,354	73,930
Utilities	1,926,958	-	14,397	27,832	-	-	1,969,187	-
Rent	3,973	-	-	36,172	-	-	40,145	-
Insurance	378,762	-	21,820	5,700	-	-	406,282	9,584,804
Materials, Supplies, and Maintenance	1,039,000	-	434,726	76,760	-	-	1,550,486	-
Workers Compensation Claims and Other Claims	-	-	-	-	-	-	-	665,984
Depreciation and Amortization	1,339,530	557,767	185,304	190,076	-	4,360,381	6,633,058	-
Leases	4,997,752	-	-	-	-	-	4,997,752	-
Other Expenses	20,518	-	4,879	4,313	-	9,857	39,567	99,422
Total Operating Expenses	18,282,282	557,767	4,876,998	740,677	-	4,405,337	28,863,061	10,424,140
Operating Income	161,839	2,300,111	796,868	(156,083)	-	648,743	3,751,478	909,880
<b>NONOPERATING REVENUES (EXPENSES)</b>								
Intergovernmental Revenue	274,875	-	55,000	4,000	-	2,982	336,857	-
Investment Earnings	79,770	-	44,305	17,713	-	579,362	721,150	158,714
Other Income	-	-	-	-	-	77,501	77,501	-
Interest Expense	(1,041,300)	-	-	(110,392)	-	(2,194,478)	(3,346,170)	-
Total Nonoperating Revenues (Expenses)	(686,655)	-	99,305	(88,679)	-	(1,534,633)	(2,210,662)	158,714
Total Income (Loss) Before Transfers	(524,816)	2,300,111	896,173	(244,762)	-	(885,890)	1,540,816	1,068,594
Transfers In	1,271,667	-	-	1,155,000	-	-	2,426,667	-
Transfers (Out)	(2,478,867)	(5,141,721)	(616,667)	(1,170,000)	-	-	(9,407,255)	-
Change in Net Assets	(1,732,016)	(2,841,610)	279,506	(259,762)	-	(885,890)	(5,439,772)	1,068,594
Fund Equity (Deficit), January 1, 2008	4,284,142	7,662,200	3,167,481	(1,449,297)	-	30,470,021	44,134,547	4,001,989
Fund Equity (Deficit), December 31, 2008	\$ 2,552,126	\$ 4,820,590	\$ 3,446,987	\$ (1,709,059)	\$ -	\$ 29,584,131	\$ 38,694,775	\$ 5,070,583

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	<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>Governmental Activities - Internal Service</i>
<b>Cash Flows From Operating Activities</b>							
Receipts from Customers and Users	\$ 18,958,546	\$ 2,857,878	\$ 5,443,781	\$ 588,477	\$ -	\$ 27,848,682	\$ -
Receipts from Interfund Services Provided	130,228	2,283,843	334,798	202	5,052,342	7,801,413	10,999,416
Receipts from Other Operating Activities	(3,387,355)	-	(2,113,891)	46,584	(169,968)	(5,624,630)	-
Payments to Suppliers	(6,385,671)	-	(2,552,610)	(355,942)	-	(9,294,223)	-
Payments to Employees	(7,327,963)	-	(41,096)	(74,017)	-	(7,443,076)	(10,921,704)
Net Cash Provided (Used) by Operating Activities	1,987,785	5,141,721	1,070,982	205,304	4,882,374	13,288,166	306,616
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers (to)/from Other Funds	(1,207,200)	(5,141,721)	(616,667)	(15,000)	-	(6,980,588)	-
Intergovernmental Revenue	274,875	-	55,000	4,000	-	333,875	-
Net Cash Provided (Used) by Noncapital Financing Activities	(932,325)	(5,141,721)	(561,667)	(11,000)	-	(6,646,713)	-
<b>Cash Flows From Capital and Related Financing Activities</b>							
Purchases of Capital Assets	(669,023)	-	(506,090)	(21,516)	-	(1,196,629)	-
Acquisition and Construction of Capital Assets	-	-	-	-	(1,813,718)	(1,813,718)	-
Interest Paid on Capital Debt	(773,367)	-	-	(110,392)	(2,200,809)	(3,084,568)	-
Principal Paid on Capital Debt	(120,878)	-	-	(43,264)	(2,337,891)	(2,502,033)	-
Net Cash Used by Capital and Related Financing Activities	(1,563,268)	-	(506,090)	(175,172)	(6,352,418)	(8,596,948)	-
<b>Cash Flows From Investing Activities</b>							
Proceeds from Sales and Maturities of Investments	-	-	-	-	-	-	3,183,871
Decrease in Restricted Investments	-	-	-	-	116,964	116,964	-
Interest and Dividends Received	79,770	-	44,305	17,713	613,567	755,355	158,714
Net Cash Provided by Investing Activities	79,770	-	44,305	17,713	730,531	872,319	3,342,585
Net Increase (Decrease) in Cash and Cash Equivalents	(428,038)	-	47,530	36,845	(739,513)	(1,083,176)	3,649,201
Cash and Cash Equivalents, January 1, 2008 (Including \$3,796,934 for the Internal Service Fund Reported in Restricted Accounts)	4,084,510	-	1,526,252	633,695	12,283,033	18,527,490	3,081,088
Cash and Cash Equivalents, December 31, 2008	\$ 3,656,472	\$ -	\$ 1,573,782	\$ 670,540	\$ 11,543,520	\$ 17,444,314	\$ 6,730,289

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	<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>Governmental Activities - Internal Service</i>
	\$ 161,839	\$ 2,300,111	\$ 796,868	\$ (156,083)	\$ 648,743	\$ 3,751,478	\$ 909,880
1,339,530	557,767	185,304	190,076	4,360,381	6,633,058	-	-
343,496	-	104,713	-	(735)	447,474	-	-
308,191	-	-	-	-	308,191	-	-
20,911	-	-	4,085	-	24,996	-	-
-	-	-	-	-	-	(5,700)	-
2,200	-	-	-	-	2,200	-	-
2,261	-	(415)	(161)	-	1,685	-	-
(75,046)	-	26,239	(5,230)	(70,422)	(124,459)	82,159	-
(61,939)	-	(31,551)	(528)	-	(94,018)	272,812	-
-	-	-	159,356	-	159,356	(100,000)	-
(21,252)	-	(10,176)	5,029	-	(26,399)	-	-
-	-	-	8,760	-	8,760	-	-
-	-	-	-	-	-	(852,535)	-
(32,406)	2,283,843	-	-	(55,593)	2,195,844	-	-
1,825,946	2,841,610	274,114	361,387	4,233,631	9,536,688	(603,264)	-
\$ 1,987,785	\$ 5,141,721	\$ 1,070,982	\$ 205,304	\$ 4,882,374	\$ 13,288,166	\$ 306,616	-

**Reconciliation of Operating Profit (Loss) to Net Cash Provided by Operating Activities**

Operating Profit (Loss)	Adjustments to Reconcile Operating Profit (Loss) to Net Cash Provided (Used) by:
Operating Activities:	
Depreciation and Amortization Expense	
(Increase) Decrease in Accounts Receivable	
(Increase) in Intergovernmental Receivables	
(Increase) in Other Receivables	
(Increase) in Interfund Receivables	
Decrease in Prepaid Items	
(Increase) in Net Pension Asset	
Increase (Decrease) in Accounts Payable	
Increase (Decrease) in Accrued Payroll and Related	
Increase in Interfund Payables	
Increase in Compensated Absences Payable	
(Decrease) in Due to Other Governments	
(Decrease) in Claims and Judgments Payable	
Increase (Decrease) in Deferred Revenue	
Total Adjustments	
Net Cash Provided (Used) by Operating Activities	

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Fiduciary Net Assets**  
**December 31, 2008**

	<i>Pension Trust Funds</i>	<i>Agency Funds</i>
	<hr/>	<hr/>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 6,725,846	\$ 546,549
Investments, at Fair Value		
Common Stocks	72,423,422	-
United States Government and Agency Obligations	41,987,869	-
Corporate Obligations	27,979,072	-
Registered Investment Companies - Mutual Funds	20,670,648	-
Short-Term Investments	4,180,872	-
Accrued Investment Income	756,026	-
Total Assets	<u>\$ 174,723,755</u>	<u>\$ 546,549</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 14,807	\$ 198,780
Due to Other Governments	-	347,769
Total Liabilities	<u>14,807</u>	<u>546,549</u>
<b>NET ASSETS</b>		
Held in Trust for Employees' Pension Benefits	<u>174,708,948</u>	-
	<u>\$ 174,723,755</u>	<u>\$ 546,549</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended December 31, 2008**

	<i>Pension Trust Funds</i>
<b>ADDITIONS TO NET ASSETS</b>	
Contributions	
Employer	\$ 6,056,531
City of Erie Water Authority	431,109
Plan Members	5,026,883
Total Contributions	11,514,523
Investment Earnings	
Net Appreciation (Depreciation) in Fair Value of Investments	(53,600,915)
Interest and Dividends	6,118,825
Other Investment Income	4,129
Less: Investment Expenses	(875,338)
Total Investment Earnings	(48,353,299)
Total Additions To Net Assets	(36,838,776)
 <b>DEDUCTIONS FROM NET ASSETS</b>	
Benefits Paid	19,718,080
Participant Refunds	124,230
Administrative Expenses	434,741
Total Deductions From Net Assets	20,277,051
 Net Increase (Decrease) to Net Assets	 (57,115,827)
 <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
Net Assets, January 1, 2008	231,983,591
Prior Period Adjustment	(158,816)
Net Assets, December 31, 2008	\$ 174,708,948

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**Component Units**  
**December 31, 2008**

	<i>Redevelopment Authority of the City of Erie</i>	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Total</i>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 10,324	\$ 2,516,979	\$ 1,596,345	\$ 4,123,648
Investments	-	293,623	-	293,623
Receivables (net of allowance for uncollectibles)	172,043	988,643	145,844	1,306,530
Inventories	-	248,058	-	248,058
Prepaid	-	347,172	159,594	506,766
Restricted Assets:				
Cash and Cash Equivalents	51,382	2,672,643	747,778	3,471,803
Investments	-	2,288,161	1,960,805	4,248,966
Other	-	-	-	-
Capital Assets:				
Non-depreciable	-	-	2,199,527	2,199,527
Depreciable (Net)	3,563,584	20,798,640	28,426,774	52,788,998
Bond Issue Costs (Net)	-	-	987,749	987,749
Long-Term Receivable	26,009	-	631,904	657,913
Net Pension Benefit Asset	-	387,316	-	387,316
<b>Total Assets</b>	<b>\$ 3,823,342</b>	<b>\$ 30,541,235</b>	<b>\$ 36,856,320</b>	<b>\$ 71,220,897</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 97,760	\$ 1,030,517	\$ 17,113	\$ 1,145,390
Accrued Liabilities	16,764	1,374,047	56,799	1,447,610
Accrued Interest Payable	-	-	450,995	450,995
Other Current Liabilities	1,349,319	604,454	-	1,953,773
Deferred Revenue	-	-	-	-
Non-Current Liabilities				
Due Within One Year				
Bonds, Loans and Leases Payable	27,093	-	1,000,000	1,027,093
Due In More Than One Year				
Bonds, Loans and Leases Payable	611,404	-	28,609,750	29,221,154
Net OPEB Obligation	-	437,214	-	437,214
<b>Total Liabilities</b>	<b>2,102,340</b>	<b>3,446,232</b>	<b>30,134,657</b>	<b>35,683,229</b>
<b>NET ASSETS</b>				
Invested in Capital Assets (net of related debt)	2,925,087	20,798,640	2,980,198	26,703,925
Restricted for:				
Other	-	4,960,804	2,760,683	7,721,487
Unrestricted:				
Undesignated	(1,204,085)	1,335,559	980,782	1,112,256
<b>Total Net Assets</b>	<b>1,721,002</b>	<b>27,095,003</b>	<b>6,721,663</b>	<b>35,537,668</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,823,342</b>	<b>\$ 30,541,235</b>	<b>\$ 36,856,320</b>	<b>\$ 71,220,897</b>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**Component Units**  
**For the Year Ended December 31, 2008**

	<i>Program Revenues</i>			<i>Net (Expense) Revenue and Changes In Net Assets</i>		
	<i>Expenses</i>	<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Primary Government</i>		
				<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
<b>Governmental activities:</b>			<i>Capital Grants and Contributions</i>			
Economic and community development	\$ 4,081,238	-	\$ 4,946,395	\$ 865,157	-	\$ 865,157
Total Governmental Activities	<u>4,081,238</u>	<u>-</u>	<u>4,946,395</u>	<u>865,157</u>	<u>-</u>	<u>865,157</u>
<b>Business-type activities:</b>						
Public transportation	18,225,983	5,899,279	9,262,930	-	(1,562,475)	(1,562,475)
Metered parking	5,680,392	5,170,975	-	-	(509,417)	(509,417)
Total Business-type Activities	<u>23,906,375</u>	<u>11,070,254</u>	<u>9,262,930</u>	<u>-</u>	<u>(2,071,892)</u>	<u>(2,071,892)</u>
Total component units	<u>\$ 27,987,613</u>	<u>\$ 11,070,254</u>	<u>\$ 14,209,325</u>	<u>\$ 865,157</u>	<u>(2,071,892)</u>	<u>(1,206,735)</u>
			<b>General Revenues:</b>			
			Interest Earnings	3,337	455,575	458,912
			Miscellaneous	61,136	1,931	63,067
			<b>Total General Revenues and Transfers</b>	<u>64,473</u>	<u>457,506</u>	<u>521,979</u>
			Changes in net assets	929,630	(1,614,386)	(684,756)
			Net assets - Beginning of Year	791,372	35,431,052	36,222,424
			Net assets - End of Year	<u>\$ 1,721,002</u>	<u>\$ 33,816,666</u>	<u>\$ 35,537,668</u>

# CITY OF ERIE, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2008

## 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.

### 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 B – DETAIL NOTES – ALL FUNDS (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 blended component unit because its governing body is the same or substantially the same as the City's and it provides services entirely for the benefit of the City.

### *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 discretely presented 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 2006, 2004, 2003 and 1998 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 B – DETAIL NOTES – ALL FUNDS (continued)**

Administrative Offices:

Erie Redevelopment Authority  
126 West 9th Street  
Erie, Pennsylvania 16501  
December 31, 2008  
Unqualified opinion dated July 31, 2009

Erie Parking Authority  
25 East 10th Street  
Erie, Pennsylvania 16501  
December 31, 2008  
Unqualified opinion dated February 20, 2009

Erie Metropolitan Transit Authority  
127 East 14th Street  
Erie, Pennsylvania 16503  
June 30, 2008  
Unqualified opinion dated September 22, 2008

Erie Sewer Authority  
120 West 10<sup>th</sup> Street  
Erie, Pennsylvania 16501  
December 31, 2008  
Unqualified opinion dated March 4, 2009

**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 B – DETAIL NOTES – ALL FUNDS (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. As a general rule the effect of interfund activity has been eliminated from the government-wide financial 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 B – DETAIL NOTES – ALL FUNDS (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 Improvements 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 Fund – 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 Fund – 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. Pension Trust Funds have been excluded from the government-wide financial statements.

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.

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.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

### **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 B – DETAIL NOTES – ALL FUNDS (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. 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 B – DETAIL NOTES – ALL FUNDS (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 \$5,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 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 B – DETAIL NOTES – ALL FUNDS (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 \$250,000 federally insured limit from time to time throughout the year. Refer to *Note B, 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 – DETAIL NOTES – ALL FUNDS**

### **Assets**

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

*Custodial Credit Risk* – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the combined deposits of the City's funds may not be returned to it. There are no formal deposit policies specifically addressing custodial credit risk. The City's cash deposits, which includes money market funds at year-end, are covered by a combination of federal depository insurance and marketable securities designated as collateral by the financial institution 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.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

<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.	\$ 1,290,862	\$ 1,500,000
2. Collateralized with securities held by the pledging financial institutions' trust department or agent in the City's name.	759	243,249
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>38,762,165</u>	<u>32,432,788</u>
Total	<u>\$ 40,053,786</u>	<u>\$ 34,176,037</u>

*Long-term investments* – Investments are all held by the City with oversight by an outside investment consultant and the Board in order to achieve an appropriate, diversified and balances asset class mix to minimize portfolio risk.

The deposits and investments held at December 31, 2008 are as follows:

<u>Type</u>	<u>Fair Value</u>
Total Deposits	\$ 40,053,786
Investments	
Fixed Income	6,461,135
Equities	1,336,757
Selectinvest ARV L.P	442,529
Total Investments	<u>8,240,421</u>
Total Deposits and Investments	<u>\$ 48,294,207</u>
Reconciliation to Statement of Net Assets	
Cash and Cash Equivalents	\$ 24,724,570
Restricted Cash and Cash Equivalents	15,329,216
Investments	7,514,632
Restricted Investments	725,789
	<u>\$ 48,294,207</u>

*Investment Interest Rate Risk* – The City does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Investment Credit Risk* – The City has no investment policy that limits its investment choices other than the limitation of state law.

*Fair Value Measurement* – On September 20, 2006, the FASB released Statement of Financial Accounting Standards NO. 157 Fair Value Measurements (“FASA 157”). FAS 157 established an authoritative definition of fair value, sets out a frame work for measuring fair value, and requires additional disclosures about fair value measurements. Under FAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of FAS 157 is required for fiscal years beginning after November 15, 2007. FAS 157 was adopted as of January 1, 2008 by City.

Various inputs are used in determining the fair value of the City’s investment in Selectinvest ARV L.P. (“Limited Partnership”) relating to FAS 157. These inputs are summarized in the three broad levels listed below.

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Significant other observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3 – Significant unobservable inputs (including the Partnership’s own assumption in determining the fair value of investments.)

Net asset value of the Limited Partnership is determined by or at the direction of the General Partner as of the close of business at the end of any fiscal period in accordance with the valuation principles set forth below or as may be determined from time to time pursuant to policies established by the General Partner. The Limited Partnership’s investments in investment funds are subject to the terms and conditions of the respective management agreements, as appropriate. The Limited Partnership’s investments in investment funds are subject to the terms and conditions of the respective management agreements, as appropriate. All valuations utilize financial information supplied by each investment fund and are net of management and incentive fees payable to the investment fund’s manager or pursuant to the investment funds’ management agreements. The Limited Partnership’s valuation procedures require the General Partner to consider all relevant information available at the time Limited Partnership values its portfolio. The General Partner has assessed factors including, but not limited to, the individual investment funds compliance with FAS 157, price transparency, valuation procedures in place, subscription and redemption activity and level of illiquid restrictions. The General Partner considers such information and consider whether it is appropriate, in light of all relevant circumstances, to value such a position at its net asset value as reported or whether to adjust such value.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

The following Table presents the investment in investment funds carried on the Statement of Financial Condition by caption and by level within the valuation hierarchy as of December 31, 2008 (in thousands):

	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Balance as of December 31, 2008</i>
Assets		
Investments in funds:	\$ 442,529	\$ 442,529
(At fair value)	<u>\$ 442,529</u>	<u>\$ 442,529</u>

At December 31, 2008, the Limited Partnership did not have any financial instruments within Level 1 or 2 based upon the significance of the unobservable inputs to the overall fair value measurement.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Limited Partnership has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 Assets measured at fair value for the year ended December 31, 2008 (in thousands):

	Level 3					<i>Change in Unrealized Gains (losses) for Investments December 31, 2008</i>
	<i>Beginning Balance January 1, 2008</i>	<i>Realized &amp; Unrealized Gains (Losses)</i>	<i>Purchases, Sales &amp; Settlements</i>	<i>Net Transfers In and/or (Out) of</i>	<i>Ending Balance December 31, 2008</i>	
<b>Assets</b>	\$ -	\$ (157,471)	\$ 600,000	\$ -	\$ 442,529	\$ (157,471)
Investments in Investment Funds	<u>\$ -</u>	<u>\$ (157,471)</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 442,529</u>	<u>\$ (157,471)</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

The following table represents the City’s investment in the Limited Partnership - Selectinvest ARV, as of December 31, 2008:

Beginning Value of Capital Account: (As of December 31, 2007)	\$ -
Capital Additions:	600,000
Net Income/Loss:	(157,471)
Ending Value of Capital Account: (As of December 31, 2008)	<u><u>\$ 442,529</u></u>

*Accounts Receivable* - Accounts receivable represents the balance due to the City’s Sewer Revenue and Refuse and Recycling Funds as of December 31, 2008 for services provided through December 31, 2008, net of an allowance for uncollectible accounts.

	<i>Sewer Revenue Fund</i>	<i>Refuse and Recycling Fund</i>	<i>Total</i>
Gross Accounts Receivables	\$ 1,393,009	\$ 884,814	\$ 2,277,823
Less: Allowance for Uncollectible Receivables	210,000	250,000	460,000
Accounts Receivable, net	<u><u>\$ 1,183,009</u></u>	<u><u>\$ 634,814</u></u>	<u><u>\$ 1,817,823</u></u>

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

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

The City levied real estate taxes of \$29,141,053 on January 1, 2008 based on a gross assessed valuation of \$2,545,070,124 at 11.45 mills. Real estate taxes attach as an enforceable lien on property as of January 1.

Taxes are levied on January 1 and are collected by the tax collector until December 31, at which time the uncollected taxes are required to be submitted to the County of Erie Tax Claim Bureau for collection.

Taxes paid prior to March 31 are eligible for a 2% discount. The face period runs from April 1 through May 31, after which taxes are subject to a 3% penalty.

For the purposes of the fund statements, the City’s real estate tax revenues are recognized as revenue in the current year to the extent they are collected or are measurable and available at December 31, 2008. Current real estate taxes receivable at December 31, 2008 consists of the face value of the tax levy uncollected at December 31, 2008.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

The receivable for outstanding delinquent tax levied at December 31, 2008 consists of the face value of the delinquent taxes plus accrued penalty and interest as confirmed by the Tax Claim Bureau of the County of Erie, Pennsylvania.

For fund statement reporting purposes, the property tax receivable represents the balance due to the City for real estate taxes levied prior to December 31, 2008. 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, 2008.

The balance of the receivable is reported as deferred revenue in the General and Debt Service Funds as follows:

Balance Held by County Tax Claim Bureau for 2008	\$ 5,316,472
Cost charged by the County for collection of the above	(265,824)
Total Property Tax Receivable	<u>5,050,648</u>
Total Lien Receivable	70,633
Other deferred revenue	364,873
Total Deferred Revenue	<u><u>\$ 5,486,154</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 Local Services Tax Receivable* - The Earned Income Tax and Local Service Tax receivable represents the City's share of the fourth quarter, 2008 taxes collected by the tax collector in January and February 2009 as follows:

Estimated Share of December 31, 2008 Cash Balance	\$ -
Estimated Share of January and February 2008 Cash Receipts	1,729,334
Total Receivable	<u><u>\$ 1,729,334</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 Program, four programs included with the Special Revenue Funds. The notes bear interest ranging from 1.0% to 5.0% with various maturities. During 2008, payments made to the City totaled \$1,499,130 representing \$1,364,972 of principal and \$134,158 of interest. The detailed activity is as follows:

Balance Outstanding at December 31, 2007	\$ 14,248,846
2008 Loans	1,819,278
2008 Write Offs	-
2008 Accrued Interest on Loans	129,326
Principal Repayments	(1,459,930)
Balance Outstanding at December 31, 2008	<u><u>\$ 14,737,520</u></u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*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	\$ 161,380	\$ 875,474	\$ 81,345
Less: Provision for Uncollectible Receivables	(90,747)	(619,602)	(47,394)
Net Lien Receivable	<u>\$ 70,633</u>	<u>\$ 255,872</u>	<u>\$ 33,951</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, 2008 is \$4,665,699; \$936,560; \$45,951 and \$9,135,054, respectively.

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

*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. 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. Per a Lease Agreement that extends the lease through 2050 which was signed in 2008, beginning in the year 2041 and going through the year 2045, the payment will increase to \$4,600,000. In the year 2046, the payment will increase to \$4,800,000. Also in 2008, the City received a onetime \$2.5 million lease extension fee which will be amortized over the life of the lease. 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.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Future minimum lease payments are presented below.

2009	\$	2,760,598
2010		2,884,825
2011		3,014,643
2012		3,150,301
2013 and thereafter		158,127,291
Total Future Lease Payments	\$	<u>169,937,658</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 \$4,666,800 at December 31, 2008.

*Capital Assets*

Capital asset activity for primary government – governmental activities for the year ended December 31, 2008 was as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$ 11,411,834	\$ -	\$ -	\$ 11,411,834
Depreciable Assets:				
Buildings and improvements	9,003,848	-	-	9,003,848
Improvements other than building	7,019,661	969,161	-	7,988,822
Equipment and vehicles	28,102,688	727,780	-	28,830,468
Infrastructure	51,886,676	2,693,530	-	54,580,206
Totals at historical cost	<u>107,424,707</u>	<u>4,390,471</u>	<u>-</u>	<u>111,815,178</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,912,935)	(925,430)	-	(8,838,365)
Improvements other than building	(1,231,740)	(249,576)	-	(1,481,316)
Equipment and vehicles	(18,677,617)	(565,399)	-	(19,243,016)
Infrastructure	(17,976,182)	(480,313)	-	(18,456,495)
Total accumulated depreciation	<u>(45,798,474)</u>	<u>(2,220,718)</u>	<u>-</u>	<u>(48,019,192)</u>
Governmental activities capital assets, net	<u>\$ 61,626,233</u>	<u>\$ 2,169,753</u>	<u>\$ -</u>	<u>\$ 63,795,986</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Capital asset activity for primary government – business-type activities for the year ended December 31, 2008 was as follows:

	<i>Primary Government</i>			<i>Ending Balance</i>
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$ 730,999	\$ -	\$ -	\$ 730,999
Depreciable Assets:				
Buildings and improvements	120,245,838	772,985	-	121,018,823
Impairment Loss*	(1,408,220)	-	-	(1,408,220)
Net Buildings and improvements	118,837,618	772,985	-	119,610,603
Improvements other than building	57,125,039	320,684	-	57,445,723
Equipment and vehicles	35,915,285	2,142,849	-	38,058,134
Totals at historical cost	<u>212,608,941</u>	<u>3,236,518</u>	-	<u>215,845,459</u>
Less accumulated depreciation for:				
Buildings and improvements	(71,097,914)	(4,499,192)	-	(75,597,106)
Improvements other than building	(33,369,668)	(1,484,248)	-	(34,853,916)
Equipment and vehicles	(11,779,044)	(492,054)	-	(12,271,098)
Total accumulated depreciation	<u>(116,246,626)</u>	<u>(6,475,494)</u>	-	<u>(122,722,120)</u>
Business-type activities capital assets, net	<u>\$ 96,362,315</u>	<u>\$ (3,238,976)</u>	<u>\$ -</u>	<u>\$ 93,123,339</u>

\**Impairment Loss* – On October 31, 2006, the City permanently closed the Erie Golf Course. As a result, it was determined that the Erie Golf Course’s assets were impaired and an impairment loss of \$1,408,220 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. On April 24, 2009, the city sold the Erie golf course to Millcreek Township for \$2,149,750 (see Subsequent Events footnote section).

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 1,909,818
Public safety	155,450
Highways and streets	111,036
Culture and recreation	44,414
Total depreciation expense - governmental activities	<u>\$ 2,220,718</u>
Business-type activities:	
Sewer	\$ 5,699,911
Refuse	185,304
Golf	190,076
Water	557,767
Total depreciation expense - business-type activities	<u>\$ 6,633,058</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 municipalities.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

The Aggregated Pension Board is responsible for management of Fund assets. The Fund is not subject to the provisions of the Employee Retirement Income and Security Act of 1974. The Fund is a single-employer, defined-benefit plan that covers all full-time officers and employees, other than firefighters and police officers, of the City of Erie. Participants become eligible to participate on their first day of employment. As of January 1, 2007 and 2006 (date of latest actuarial valuation), employee membership data is as follows, including Erie City Water Authority employees:

	<u>2008</u>	<u>2007</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>400</u>	<u>400</u>
Active participants, vested and non-vested	<u>419</u>	<u>464</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) three percent for single-coverage employees with no social security buyback, (b) three and one-half percent for joint coverage with no social security buyback or (c) five 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.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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. 31, 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 \$57,194,500 at December 31, 2008. 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.

Investments held by a single entity that represents 5% (\$2,844,800 for 2008 and \$3,722,500 for 2007) or more of net assets available for benefits, include investments insured by the United States Government, and the following:

	<u>2008</u>	<u>2007</u>
International Investment Mutual Funds		
Templeton Funds Inc. Foreign Fund Class A	\$ -	\$ 7,188,366
American Funds Euro Pac Growth Fund Sh Int Fd #16	-	7,387,926
	-	14,576,292
Blackrock Funds Money Market Institutional Shares #01	3,770,385	-
	<u>\$ 3,770,385</u>	<u>\$ 14,576,292</u>

Funding Status and Progress of Plan

Presented below is the “Actuarial Accrued Liability” of the Fund as determined in the Fund’s January 1, 2007 and 2006 actuarial valuations. The standard measurement is the actuarial present value of total projected benefits. This standard measurement reflects the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Total projected benefits include all benefits estimated to be payable to plan members as a result of their service through the valuation date and their expected future service.

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

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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

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

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

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

The summary of the Fund’s unfunded actuarial accrued liability is presented on the next page.

	<i>January 1,</i>	
	<u>2007</u>	<u>2006</u>
Present value of benefits at attained age		
Active participants	\$ 57,460,452	\$ 59,470,890
Inactive participants	1,904,631	2,444,556
Retirees and beneficiaries receiving benefits	<u>36,342,864</u>	<u>34,511,864</u>
Total present value of projected benefits	95,707,947	96,427,310
Actuarial present value or future normal costs	<u>14,924,393</u>	<u>16,374,127</u>
Actuarial accrued liability	80,783,554	80,053,183
Actuarial value of assets at fair value	<u>64,819,617</u>	<u>63,417,458</u>
Unfunded actuarial accrued liability	<u>\$ 15,963,937</u>	<u>\$ 16,635,725</u>

Employee contributions at January 1, 2007 and 2006 consist of:

	<u>2007</u>	<u>2006</u>
All active participants	<u>\$ 11,435,788</u>	<u>\$ 11,704,143</u>

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuations of the pension benefit obligation occurred during 2007 or 2006.

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; (d) Actuarial gains and losses - 15 years and (e) 2002 and 2003 investment losses – 30 years. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

For the years ended December 2008 and 2007, 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>2008</u>	<u>Covered Payroll %</u>	<u>2007</u>	<u>Covered Payroll %</u>
Annual participating payroll based on prior year W-2 earnings	<u>\$ 15,375,042</u>		<u>\$ 15,375,042</u>	
Contributions - Year ended December 31,				
Employers' contributions	\$ 2,283,068	14.80%	\$ 2,284,212	14.90%
Employee contributions	<u>1,086,551</u>	<u>7.10%</u>	<u>1,061,143</u>	<u>6.90%</u>
	<u>\$ 3,369,619</u>	<u>21.90%</u>	<u>\$ 3,345,355</u>	<u>21.80%</u>

The following specific information was used in the actuarial valuation dated January 1, 2007:

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

Effective January 1, 1962, the City of Erie adopted an optional charter pursuant to the Optional Third Class City Charter Law the act of July 15, 1957, P.L. 901, as amended, 53 P.S. 41101, et seq. In order to qualify for supplemental state aid under act 205, the City established a board known as the Aggregated Pension Board through ordinance 76-1987. The Aggregated Pension Board is responsible for management of Fund assets. The Fund is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

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

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

As of January 1, 2007 (date of latest actuarial valuation), employee membership data is as follows:

	<u>2007</u>
Retirees, and beneficiaries, including widows, court-ordered, and guardians currently receiving benefits	259
Current employees including fully and partially vested, and non-vested	163
Terminated employees - vested, but not currently receiving benefits	<u>2</u>
Total	<u><u>424</u></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 of additional benefit.

Members who have twelve years of service and terminate before twenty years of service, and have attained age fifty, may receive such portion of the pension as the period of service to the date of termination bears to the full twenty-year period of service. Other Plan provisions provide for the payment of retirement benefits based upon total and permanent disability or death.

Members hired by the City of Erie Bureau of Police on or before January 1, 1981 shall receive, when retired, an annual cost of living allowance increase to their monthly benefit based on the percentage increase in the Consumer Price Index (CPI) published by the United States Department of Labor, Bureau of Labor Statistics. Adjustments to the cost of living allowances will be effective on the first day of January each year. Cost of living allowances may not at any time exceed one-half of the current salary paid to 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, 2001 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 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 percent to a total of six percent. The City remits participant contributions immediately after each pay period. The City of Erie annual contribution is based on a formula required by Act 205 of the Commonwealth of Pennsylvania.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Summary of Significant Accounting Policies

The fund's policy is to prepare its' financial statements on the accrual basis of accounting. Income is recognized when earned. Fund participant contributions are recognized in the period in which contributions are withheld from the participants' wages and salaries.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments, expenditures and refunds are recognized when due and payable in accordance with the terms of the plan.

In accordance with Statement on Governmental Accounting Standards (GASB) No. 31, 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 \$55,324,710 and \$70,326,235 at December 31, 2008 and 2007, 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.

Employer contributions are as follows:

<u>December 31,</u>	<u>Contribution</u>	<u>Contributed</u>
1995	\$ 5,028,735	100.8%
1996	4,958,935	100.0%
1997	4,341,905	100.0%
1998	3,631,007	559.8%
1999	2,477,666	32.3%
2000	0	0.0%
2001	144,796	100.0%
2002	0	0.0%
2003	882,758	100.0%
2004	591,333	111.3%
2005	671,014	100.0%
2006	909,353	100.0%
2007	1,879,486	100.0%
2008	2,008,878	100.0%

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Firemen's' Pension Fund

Plan Description

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

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

As of January 1, 2007 (date of latest actuarial valuation), employee membership data is as follows:

Retirees and beneficiaries currently receiving benefits	208
Terminagted participants with vested benefits	0
Active employees, including fully vested, partially vested and non-	148
Total	<u>356</u>

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 \$500 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).

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Summary of Significant Accounting Policies

The fund's policy is to prepare its' financial statements on the accrual basis of accounting. Employee contributions are recognized as revenues in the period in which employee services are performed.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Refunds paid and expenditures are recognized when the obligation is due and payable in accordance with the terms of the plan.

In accordance with Statement on Governmental Accounting Standards (GASB) No. 31, investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The market value of investments maintained in trust is \$39,296,750 at December 31, 2008. Unrealized appreciation or depreciation of the investments' market value is recognized in the period incurred.

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, 2007 (the date of the latest actuarial valuation) is as follows:

Present Value of Benefits at Attained Age-	
Active Participants	\$ 41,912,505
Retirees and Beneficiaries Receiving Benefits	42,131,372
Total Present Value of Projected	<u>84,043,877</u>
Actuarial Present Value of Future Normal Costs	<u>10,263,059</u>
Actuarial Accrued Liability	73,780,818
Actuarial Value of Assets (Fair market value is	55,543,720
Unfunded Actuarial Accrued	<u><u>\$ 18,237,098</u></u>

At December 31, 2008, the following investments exceeded 5% of net assets available for benefits:

Blackrock Funds Money Market Institutional Share Fund	\$ 2,810,503
	<u><u>\$ 2,810,503</u></u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Funding Status and Progress of Plan

Total payroll and covered payroll for the year ended December 31, 2008 was \$8,432,275 and \$7,213,667, respectively. In 2008, net contributions made totaled \$2,338,376, as follows:

	<i>Amount</i>	<i>Covered Payroll %</i>
Municipal Contribution - City of Erie, PA - MMO	\$ 1,903,950	26.39%
Active Member Contributions	434,280	6.02%
Other Member Contributions	598	0.01%
Return of Contribution	(452)	
	<u>\$ 2,338,376</u>	

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 2008 were \$2,930,318.

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. 31, 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 \$19,119,545 at December 31, 2008. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation). The plan currently has 370 active participants. All amounts of compensation deferred under these plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Risk Management

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

The Employees' Health Benefit Plan is a modified, self-insurance program for insuring hospitalization and medical costs. The program is limited to losses of \$125,000 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, 2008 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 2008, the combined medical and indemnity stop-loss amount was \$100,000. The self-insured retention amount was \$500,000 per occurrence and \$650,000 per occurrence for Police and Fire, respectively.

Unpaid Claims Liabilities - Workers' Compensation - The following represents the changes in approximate aggregate liabilities for the City from January 1, 2008 to December 31, 2008.

	<u>2008</u>	<u>2007</u>
Accrued Worker's Compensation, January 1	\$ 268,890	\$ 490,833
Current Year Claims	198,393	92,181
Claim Payments	(142,128)	(314,124)
Accrued Worker's Compensation, December 31	<u>\$ 325,155</u>	<u>\$ 268,890</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*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 \$5,000 to \$370,000. With regard to unsettled cases, the range of possible outcomes varies from remote to reasonably possible. The City's aggregate potential liability is \$656,200. This estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

*Lease Agreements*

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

In 1995, the Authority refunded the 1972 bonds and has issued numerous other bond issues and notes in conjunction with this lease. The annual lease payments are based on the debt service requirements of the Authority, including an additional amount to cover the administrative expenses of the Authority. On October 1, 2002, this lease was amended. 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 City also agreed to operate and maintain the treatment plant and other parts of the sewer system and to pay all costs incidental thereto.

The remaining lease payments as of December 31, 2008 are as follows:

2009	\$	4,958,459
2010		5,055,721
2011		5,106,706
2012		5,103,878
2013		5,102,747
Thereafter		68,896,057
Minimum Lease Obligation	\$	<u>94,223,568</u>

The lease rental payment for 2008 was \$5,003,378.

Other Lease Agreements - The City has historically entered into various capital lease agreements to purchase equipment (fire trucks and equipment, computers, and telephone system). The City had one capital lease agreement for equipment during the year ended December 31, 2008.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

The remaining lease payments as of December 31, 2008 are as follows:

	2009	8,398
	2010	8,398
	2011	8,398
	2012	7,698
Minimum Lease Obligation		<u>\$ 32,892</u>

*Long-Term Debt*

General obligation notes and bonds are direct general obligations of the City. Principal and interest payments are backed by the full faith, credit and taxing power of the City. Under Commonwealth of Pennsylvania Local Government Unit Debt Act limitations, the City may incur up to \$208,720,614 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, 2007 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 1998B bonds at December 31, 2008 is \$32,785,853. Outstanding principal, including compounded accreted value, of the 1998B Bonds in the amount of \$9,180,039 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 \$23,605,814 of the 1998B Bonds is included in the Governmental Activities section of the Statement of Net Assets.

## **NOTE B – 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, 2008 is \$0; \$8,500,000 and \$11,802,343, respectively. Outstanding principal of the 2001B Bonds in the amount of \$1,530,000 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 \$6,970,000 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. 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, 2008 is \$14,990,000; \$13,495,000; and \$11,060,000, respectively. Outstanding principal of the 2001E and F Bonds in the amount of \$5,937,800 and \$3,096,800 are being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$7,557,200 and \$7,963,200 of the 2001E and F Bonds are included in the Governmental Activities Section of the Statement of Net Assets.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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, 2008 is \$2,125,136. The 2003 Note is included in the Proprietary Fund Section of the Statement of Net Assets. See "Subsequent Event" section for actions taken by the City that will accelerate payment of outstanding amount.

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, 2008 is \$250,000. 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, 2008 is \$6,880,000, and \$1,450,000, respectively. Outstanding principal of the 2004A and B Bonds in the amount of \$8,330,000 is being classified in the Governmental Activities Section of the Statement of Net Assets.

**NOTE B – 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, 2008, are as follows:

	<i>Governmental Activities</i>	<i>Business- Type Activities</i>
2009	\$ 8,408,833	\$ 5,930,380
2010	8,389,924	5,917,571
2011	8,468,825	5,874,480
2012	8,464,945	5,877,508
2013	7,139,058	7,190,512
2014-17	28,414,244	29,339,808
2018-21	26,234,779	27,824,268
2022-25	22,969,925	27,062,162
2026	6,291,698	4,785,000
Total principal and interest	<u>124,782,231</u>	<u>119,801,689</u>
Less: Interest, other than accreted interest	<u>14,551,640</u>	<u>22,887,550</u>
Total Outstanding Liability	110,230,591	96,914,139
Less: Accreted interest	<u>28,137,438</u>	<u>23,241,319</u>
Total General Obligation Bonds	<u><u>\$ 82,093,153</u></u>	<u><u>\$ 73,672,820</u></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, 2008, the amount of defeased debt outstanding and removed from the Statement of Net Assets amounted to \$ 28,450,000.

Long-term liability activity for the year ended December 31, 2008 was as shown on the following page:

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Amounts Due Within One Year</i>
<b>Governmental Activities:</b>					
Bonds, loans and leases payable:					
General obligation bonds	\$ 115,771,856	\$ -	\$ (5,824,157)	\$ 109,947,699	\$ 5,799,500
Leases payable	10,659	32,892	(10,659)	32,892	8,398
Long-term loans	300,000	-	(50,000)	250,000	50,000
	<u>116,082,515</u>	<u>32,892</u>	<u>(5,884,816)</u>	<u>110,230,591</u>	<u>5,857,898</u>
Less bond discount and deferred amount on refunds	(29,919,601)	-	1,782,163	(28,137,438)	-
Total bonds, loans and leases payable	<u>86,162,914</u>	<u>32,892</u>	<u>(4,102,653)</u>	<u>82,093,153</u>	<u>5,857,898</u>
Other liabilities:					
Compensated absences	3,905,079	-	(363,315)	3,541,764	364,892
Total other liabilities	<u>3,905,079</u>	<u>-</u>	<u>(363,315)</u>	<u>3,541,764</u>	<u>364,892</u>
Governmental activities long-term liabilities	<u>\$ 90,067,993</u>	<u>\$ 32,892</u>	<u>\$ (4,465,968)</u>	<u>\$ 85,634,917</u>	<u>\$ 6,222,790</u>
<b>Business-Type Activities</b>					
Bonds and loans payable:					
General obligation bonds	\$ 80,365,179	\$ -	\$ (1,550,336)	\$ 78,814,843	\$ 3,115,503
Long-term loans	2,168,400	-	(43,264)	2,125,136	2,125,136
	<u>82,533,579</u>	<u>-</u>	<u>(1,593,600)</u>	<u>80,939,979</u>	<u>5,240,639</u>
Less bond discount and deferred amount on refunds	(7,868,980)	-	601,821	(7,267,159)	-
Total bonds and loans payable	<u>74,664,599</u>	<u>-</u>	<u>(991,779)</u>	<u>73,672,820</u>	<u>5,240,639</u>
Compensated absences	706,918	-	(26,399)	680,519	70,110
Business-type activities long-term liabilities	<u>\$ 75,371,517</u>	<u>\$ -</u>	<u>\$ (1,018,178)</u>	<u>\$ 74,353,339</u>	<u>\$ 5,310,749</u>
<b>Component Unit:</b>					
Bonds and loans payable:					
General obligation bonds	\$ 32,323,976	\$ 486,768	\$ (1,034,290)	\$ 31,776,454	\$ 1,027,093
	<u>32,323,976</u>	<u>486,768</u>	<u>(1,034,290)</u>	<u>31,776,454</u>	<u>1,027,093</u>
Less bond discount and deferred amount on refunds	(1,252,916)	-	175,704	(1,077,212)	-
Total bonds and loans payable	<u>31,071,060</u>	<u>486,768</u>	<u>(858,586)</u>	<u>30,699,242</u>	<u>1,027,093</u>
Compensated absences	-	-	-	-	-
Component Unit long-term liabilities	<u>\$ 31,071,060</u>	<u>\$ 486,768</u>	<u>\$ (858,586)</u>	<u>\$ 30,699,242</u>	<u>\$ 1,027,093</u>

*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 are recorded as an expense and a liability of those funds as the benefits accrue to employees. The balance that has been accrued is \$435,000 which represents a decrease of \$20,263 from the prior year, and is recorded out in the appropriate funds as a current and/or non-current liability.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

### Other Post Employment Benefits –

In addition to the pension benefits disclosed elsewhere in Note B, resolutions of City Council, State statutes, and labor agreements have provided for certain post employment benefits, other than pension benefits, to be provided to retirees or their beneficiaries. The City funds all City contributions on a pay-as-you-go basis. Such benefits are primarily funded through annual appropriations from the City's General Fund and trusts designated for those purposes. Post retirement benefits consisting of health care benefits, Medicare reimbursements and life insurance for firefighters and police officers and life insurance for certain municipal employees.

Benefit provisions for the plan is established and amended through negotiation between the City and the respective unions.

**Funding Policy.** The City's contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008, the City paid \$1,386,725 to 81 former police officers and \$1,300,285 to 76 former firefighters. The difference between the amount the City paid and the amount projected in an actuarial report results in a net liability of \$221,121. Employees are not required to make contributions for basic life insurance. Employees contribute to health care costs at a flat rate based on wages and family size.

**Annual OPEB Cost.** The City's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement NO. 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected cover normal cost each year and to amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 23 years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about the payments over time relative to the actuarial accrued liabilities for benefits.

**Actuarial methods and assumptions:** Projections of benefits for financial reporting purposes are based on the substantives plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The following tables shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plans, and changes in the City's net OPEB obligations, as well as the assumptions used to calculate the net OPEB obligation:

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

	<u>Ununiformed</u>	<u>Police</u>	<u>Fire</u>	<u>Totals</u>
Annual Required Contribution	\$ 7,376	\$ 1,381,356	\$ 1,529,399	\$ 2,918,131
Actual Amount Paid	-	1,386,725	1,300,285	2,687,010
Difference:	(7,376)	5,369	(229,114)	(231,121)
Total Unfunded Actuarial Accrued Liability (As of December 31, 2007)	14,401	8,383,167	8,709,668	17,107,236
Unfunded Actuarial Accrued Liability additions from current year. (As of December 31, 2008)	(7,376)	5,369	(229,114)	(231,121)
Total Unfunded Actuarial Accrued Liability (As of December 31, 2008)	\$ 21,777	\$ 8,377,798	\$ 8,938,782	\$ 17,338,357

**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.

The portion of unrestricted net assets designated for catastrophic losses represents an amount management feels will cover future losses that are anticipated to occur based on the City's insurance carriers opinion of projected future claims. The insurance carrier has based these projections on trend information developed from the City's claims history. For the 2009 budget, the City appropriated \$1.3 million of these net assets for insurance related expenditures thereby reducing the amount of intergovernmental revenue anticipated from other funds.

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

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

The reserve for endowment principal is a portion of the Capital Project Fund's unreserved fund balance that has been designated to record the initial lease rental received from the Erie City Water Authority (a.k.a. Erie Water Works). At the date at which this agreement was amended and extended the amount designated was increased to \$7,750,000.

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

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

**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, 2008 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Golf	\$ 699,177	\$ -
Internal Service	334,489	45,482
Debt Service	1,965,473	10,230,502
Capital Improvements	6,000	17,284
Sewer	8,825	173,265
Refuse	42,789	-
Debt Service Fund:		
General	10,230,502	1,965,473
Capital Improvements	-	18,629
Golf	153,656	-
Sewer Revenue Fund:		
General	173,265	-
Capital Improvements	-	8,825
Refuse Fund:		
General	-	42,789
Golf Fund:		
General	-	699,177
Internal Service	-	139,991
Debt Service	-	153,656
Capital Improvements Fund:		
Debt Service	18,629	-
General	17,284	6,000
Special Revenue	7,398	-
Internal Service Fund:		
General	45,482	334,489
Golf	139,991	-
Special Revenue Fund:		
Capital Improvements	-	7,398
	<u>\$ 13,842,960</u>	<u>\$ 13,842,960</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

**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, 2008 are \$19,356,840.

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, 2008 are \$13,325,000.

During 2008, 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 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, 2008 are \$10,135,000.

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, 2008 are \$7,650,000.

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, 2008 are \$6,525,000.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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, 2008 is \$0.

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, 2008 is \$255,003.

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, 2008 are \$6,056,256.

### **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 Special Revenue Fund activity and the balance available for expenditure is presented appropriately.

## **NOTE B – 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 at December 31, 2008 was \$1,525,587.

### **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 \$829,193 at December 31, 2008 that was the result of an excess of expenditures over revenues from previous years. The City began to address this shortfall beginning in 2007 by increasing taxes and fees and reducing expenditures through job cuts and cost cutting. The excess of revenues over expenditures for the periods ended December 31, 2008 and 2007 have significantly helped to reduce the prior year deficit fund balance but the City will need to continue addressing the deficit each year through the budget until it is eliminated. Beginning in 2008 and continued in 2009, to help reduce the deficit, the City allocated a larger percentage of property taxes to be used for general fund activities.

### **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**

#### *HOME Investment Partnership Program Fund (A Special Revenue Fund)*

At December 31, 2007, the HOME Investment Partnership Program Loans Receivable was understated by \$86,689. As a result various economic and community development related expenditures were overstated in prior years. The restatement has the effect of increasing beginning fund balance by \$86,689 in the HOME Investment Partnership Program Fund in the current year.

### **Subsequent Events**

*Tax and Revenue Anticipation Note* – On January 18, 2009, Council approved a tax and revenue anticipation note of \$4,000,000, bearing an interest rate of 2.98% and payable on June 29, 2009.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Erie Golf Course* – On September 9, 2008, Millcreek Township agreed to take ownership of the Erie Golf Course. In accordance with the aforementioned agreement the outstanding debt the Course has will be paid off by the Airport Authority in connection with an agreement entered into with the Township. On April 24, 2009, the Erie Golf Course was sold and the City of Erie received \$2,149,750 from the sale. From the proceeds, \$2,125,485 will be used to pay off golf course renovation related debt. The balance of \$24,265 will be used for the payment of remediation work on the Course, which is the responsibility of the City.

### **New Pronouncements**

#### ***GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments***

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

A key provision in this statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

GASB Statement No. 53 is effective for financial statements for periods beginning after June 15, 2009. For potential hedging derivative instruments existing prior to the fiscal period during which this statement is implemented, the evaluation of effectiveness should be performed as of the end of the current period. If determined to be effective, hedging derivative instruments are reported as if they were effective from their inception. If determined to be ineffective, the potential hedging derivative instrument is then evaluated as of the end of the prior reporting period.

#### ***GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions***

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, initially distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified as spendable based on the relative strength of the constraints that control the purposes for which specific amounts can be spent.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- **Restricted**—Amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- **Committed**—Amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned**—Amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
- **Unassigned**—The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types as well as further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or “rainy day” amounts should be reported. Because of the specific nature of these types of accounts, the statement considers stabilization amounts as specific purposes. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the appropriate criteria. Only if the resources in the stabilization arrangement derive from a restricted or committed revenue source could a stabilization fund be reported as a special revenue fund. GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to GASB Statement No. 54 should be retroactively applied by restating fund balance for all prior periods presented.

## **COMPONENT UNIT DISCLOSURES**

### **Erie Redevelopment Authority**

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

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

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Cash Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2008, the carrying amount of the Authority's deposits was \$61,706 and the bank balance was \$81,688 of which \$0 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Authority's name.

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

*Property and Equipment* – Property and equipment purchased or acquired with an original cost of \$2,000 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is recorded on the straight-line basis over the estimated useful life. The Authority depreciates their real property over 27.5 years.

Property and equipment activity for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Real Property	<u>\$ 1,135,376</u>	<u>\$ 2,882,380</u>	<u>\$ 426,161</u>	<u>\$ 3,591,595</u>

Note: Ending balance does not include accumulated depreciation of \$28,011

*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 note. 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, 2008, the balance of this loan remained at \$104,000 and the terms of the loan have not been renegotiated.

In November of 2003, the Authority borrowed \$180,000 from the City of Erie for the purchase of ten properties along West 17<sup>th</sup> and 18<sup>th</sup> Streets and to pay for various attorneys' fees. The properties serve as collateral for the loan. The loan bears a 3% interest rate; however, no interest has been accrued by the Authority. The Authority does not anticipate repayment of any portion of this loan within the next year; therefore the entire balance has been classified as long-term. As of December 31, 2008, the outstanding balance was \$180,000.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

During September of 2003, the Authority borrowed \$233,600 from a local bank for the purchase of four properties along West 5<sup>th</sup> Street. The term of this loan is for 15 years and requires 180 monthly payments of \$1,887, which includes interest at 5.25%. The interest rate is fixed for three years at which time it will adjust to a new rate as described in the loan agreement. The properties serve as collateral for this loan. As of December 31, 2008, the outstanding balance was \$177,049.

The fourth 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 was for 25 years and requires monthly payments of \$175, which included interest at 4.25%. This interest rate is fixed for the life of the loan term. A balloon payment of approximately \$17,000 was due in December 2008. The 428 E. 11<sup>th</sup> Street property served as collateral. On October 17, 2008, the Authority sold the property at 428 E. 11<sup>th</sup> Street, at which time the loan was repaid in full.

The fifth loan is a note payable to a local bank. The Authority borrowed \$125,510 in prior years by way of a revolving line of credit for the purchase of properties at 428 E. 11<sup>th</sup> Street, 2120 Parade Street, and 531, 535 and 556 West 5<sup>th</sup> Street. The properties serve as collateral for this loan. Effective May 1, 2007, this line of credit was converted to a 10 year term note. The note requires 120 monthly payments of \$1,599, including interest, at a fixed rate of 9.0%. As of December 31, 2008, the outstanding balance was \$95,462.

The sixth loan is a note payable to a local bank. The Authority borrowed \$84,000 in April 2008 for the purchase of a property at 1413 Parade Street. The term of the loan is for fifteen years and requires 180 monthly payments of \$742, which includes interest at 6.25%. The property serves as collateral for this loan. As of December 31, 2008, the outstanding balance was \$81,986.

*Compensated Absences* - Employees of the Authority are entitled to paid vacation, paid sick days and paid personal days depending on length of service. No more than ten vacation days may be carried over from one calendar year to the next. Sick leave may be accumulated, but no more than fifteen days may be carried from one calendar year to the next. No personal day's carryover and no pay will be made in lieu of unused personal days. 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 (and interest allocated to the participant's account) is fully vested immediately.

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, 2008, were calculated using the total compensation of eligible participants in the amount of \$358,268. Both the Authority and the covered employees made the required contributions, amounting to \$26,908 from the Authority and \$35,170 from the covered employees.

## **NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Transactions with the Primary Government* - During 2008, the Redevelopment Authority received \$2,426,048 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.

*Deposits with Financial Institutions and Investments* - Deposits are primarily in local financial institutions, and are also invested in the Pennsylvania INVEST Program for Local Governments, 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.

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.

*Custodial Credit Risk for Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$5,004,216 of the Authority's bank balance of \$5,204,216 was exposed to custodial credit risk as uninsured and collateralized by the pledging financial institution, or its trust department, but not in the Authority's name. The depository secures the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of the 1971 Session of the Pennsylvania General Assembly (72 PA 3836).

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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

	<i>Fair Value</i>
Federal Home Loan Bank 4.25%	\$ 24,799
Federal Home Loan Bank 5.625%	25,490
Federal Home Loan Bank 5.35%	25,656
Federal Farm Credit Bank 4.18%	50,898
TVA 4.35%	9,960
Federal National Mortgage Assoc. 4.125%	49,035
Federal National Mortgage Assoc. 3.5%	24,455
FNR 2003-35 5.0%	3,344
FHR 2631 4.5%	3,164
FNR 2004-54 5.0%	4,864
FHR 147 G 7.5%	2,370
FHR 1169 G 7.5%	2,185
FHR 2619 QR 5.0%	7,733
Certificates of Deposit	1,094,629
PA Treasurer's INVEST Program for Local Governments	293,623
Various Money Market Balances	959,579
Total	<u>\$ 2,581,784</u>

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

	<i>Estimated Useful Lives in Years</i>	<i>Balance June 30, 2007</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>	<i>Dispositions</i>	<i>Balance June 30, 2008</i>
Land	N/A	\$ 189,369	\$ 5,066	\$ -	\$ -	\$ 194,435
Land Improvements	10-15	223,877	5,956	-	-	229,833
Buildings and Improvements	5-33	3,836,087	82,124	-	-	3,918,211
Buses	5-12	20,432,220	1,563,953	-	(103,000)	21,893,173
Fare Boxes	12	712,991	-	7,250	-	720,241
Vehicles and Equipment	4-7	581,344	55,242	-	(35,709)	600,877
Shop and Garage Equipment	5-12	1,112,969	364,717	(7,250)	(136,993)	1,333,443
Office Furniture and Equipment	5-10	389,598	15,769	-	(12,654)	392,713
Radio Equipment	12	523,284	1,595	-	-	524,879
Bus Shelters	12-15	298,624	1,553	-	-	300,177
Park and Ride	30	1,937,802	-	-	-	1,937,802
Intermodal Center	30	9,092,708	-	-	-	9,092,708
CNG Facility	30	1,620,317	-	-	-	1,620,317
AVL		264	408,433	-	-	408,697
Total		40,951,454	2,504,408	-	(288,356)	43,167,506
Less: Accumulated Depreciation		(19,932,316)	(2,724,906)	-	288,356	(22,368,866)
Net Investment in Transit System		<u>\$ 21,019,138</u>	<u>\$ (220,498)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,798,640</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*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, 2007 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 smoothed market value 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, 2007 was 13 years for the Regular Plan and 11 years for the Supplemental Plan.

Trend Information

	<i>Plan Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Pension Obligation (Asset)</i>
Regular Plan	04/30/06	456,962	98.47%	(159,918)
	04/30/07	357,123	107.58%	(186,990)
	04/30/08	381,791	105.88%	(209,429)
Supplemental Plan	04/30/06	67,691	99.36%	(173,603)
	04/30/07	73,492	100.71%	(174,122)
	04/30/08	74,048	105.08%	(177,887)

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 its 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 17, 2009. The line is unsecured and bears interest at the prime rate minus 1½%. There were no borrowings outstanding at June 30, 2008 and 2007.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

**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 which are as follows:

Debt Service	\$ 56,537
Debt service reserve	2,449,394
Bond Retirement	31,628
Construction	-
Capital improvements	171,024
Total restricted assets	<u>\$ 2,708,583</u>

*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. As of December 31, 2008, the bank balance of the Authority's deposits that are exposed to custodial credit risk is \$2,047,983. These amounts are uninsured. However they are collateralized with securities held by the trust department or agent but not in the Authority's name.

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

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

	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
FHLB note maturing within 4 months	-	-	1,960,805	1,960,805
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,960,805</u>	<u>\$ 1,960,805</u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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

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

Estimated useful lives are as follows:

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

A summary of property activity for 2008 is as follows:

	<i>Balance</i> <u>December 31, 2007</u>	<i>Additions</i>	<i>Dispositions</i>	<i>Balance</i> <u>December 31, 2008</u>
Land	\$ 2,199,527	\$ -	\$ -	\$ 2,199,527
Parking Facilities	45,184,520	878,610	-	46,063,130
Metered Collection Equipment	809,073	138,640	-	947,713
Other Equipment and Vehicles	493,832	51,637	-	545,469
Total Fixed Assets	<u>48,686,952</u>	<u>1,068,887</u>	<u>-</u>	<u>49,755,839</u>
Less: Accumulated Depreciation	<u>17,899,758</u>	<u>(1,229,780)</u>	<u>-</u>	<u>19,129,538</u>
Net Fixed Assets	<u>\$ 30,787,194</u>	<u>\$ (160,893)</u>	<u>\$ -</u>	<u>\$ 30,626,301</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, 2008 amounted to \$28,190.

*Pension* - The Authority maintains a single-employer defined benefit pension plan, which covers substantially all of its employees, who were employed prior to September 1, 2000. Employees were 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.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

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 its administrative office or from the City Clerk's office in the Municipal Building.

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	\$ 13,461
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	(7,861)
Annual Pension Cost	<u>5,600</u>
Contributions Made	<u>(5,600)</u>
Decrease in Net Pension Obligation	-
Net Pension Obligation Beginning of Year	-
Net Pension Obligation End of Year	<u><u>\$ -</u></u>

The annual required contribution was determined as part of January 1, 2007 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	\$ 30,343	121.0%	\$ 36,711
12/31/05	25,340	128.1%	32,467
12/31/06	5,672	505.0%	28,645

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 \$43,865 in 2008. Employee contributions to the Plan amounted to \$72,001 in 2008. At December 31, 2008, the plan has \$0 in forfeitures available to reduce future contributions by the Authority.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Long-Term Debt* - The Erie Parking Authority has entered into the following debt agreements with balances as of December 31, 2008:

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.	\$ 10,135,000
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.	6,525,000
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>6,056,256</u>
Outstanding Principal at December 31, 2008	30,366,256
Less: Original Issue Discount	(229,530)
Less: Deferred Amount of Refunding	(847,682)
Line of Credit	320,706
Less: Current Maturities	<u>(1,000,000)</u>
Total Long-Term Portion	<u>\$ 28,609,750</u>

The following summarizes the maturities due subsequent to December 31, 2008, for future debt obligation payments, including \$15,979,928 of interest.

2009	\$ 2,364,488
2010	2,674,944
2011	2,352,920
2012	2,352,846
2013	2,353,808
Thereafter	<u>34,567,884</u>
	<u>\$ 46,666,890</u>

During fiscal year ended December 31, 2006, the Authority defeased portions of the Series of 1998 and Series 2003 notes by placing a portion of the proceeds of the Series of 2006 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, 2008, \$555,000 of bonds outstanding are considered defeased.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**  
**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.

*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, 2008, all of the investment balances were in Category 3. 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	\$ 11,543,520
Investments	3,583,945
Total	<u>\$ 15,127,465</u>
Balance Sheet Amounts:	
Cash and cash equivalents	
Unrestricted	\$ 104,037
Restricted	11,439,483
Total cash and cash equivalents	<u>11,543,520</u>
Investments:	
Restricted	3,583,945
Total investments	<u>3,583,945</u>
Total	<u>\$ 15,127,465</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 61.

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

*Long-Term Debt* - The Erie Sewer Authority has entered into the following debt agreements as of December 31, 2008:

Sewer Revenue Bonds, Series of 2001, bearing interest ranging from 3.0% to 5.125%	13,325,000
Sewer Revenue Bonds, Series of 1999, bearing interest ranging from 3.0% to 4.95%	15,850,000
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	255,003
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	-
Outstanding Principal at December 31, 2008	<u>52,176,843</u>
Less: Current Maturities	<u>(2,530,003)</u>
Total Long-Term Portion of debt	\$ 49,646,840
Less: Deferred amount on refunding	<u>(1,472,799)</u>
Total Long-Term debt, net of deferred amounts	<u><u>\$ 48,174,041</u></u>

The following summarizes the maturities due subsequent to December 31, 2008 for outstanding indebtedness of the Authority:

2009	\$ 2,530,003
2010	2,595,000
2011	2,755,000
2012	2,875,000
2013	3,005,000
Thereafter	<u>55,490,000</u>
	<u><u>\$ 69,250,003</u></u>

**NOTE B – DETAIL NOTES – ALL FUNDS (continued)**

**Sewer Revenue Bonds, Series of 2000**

The Sewer Revenue Bonds, Series of 2000, in the principal amount of \$12,970,000, were issued on June 15, 2000 to finance various sewer projects, fund a Debt Service Reserve Fund and pay the costs of issuing the bonds. The 2000 Bonds were refunded by the Sewer Revenue Bonds, Series of 2001. The principal and interest payable on 2000 Bonds by the escrow agent at December 31, 2008 was \$12,485,000, and \$1,104,084, respectively.

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

The Sewer Revenue Bonds, Series A and B of 1998, in the principal amount of \$18,465,000, were issued on June 15, 1998 to refund the Sewer Revenue Bonds, Series of 1995, construct new relief sewer lines, fund the interest on the bonds to December 31, 1998, fund a Debt Service Fund and pay the costs of issuing the bonds. The 1998 Bonds were refunded by the Sewer Revenue Bonds, Series A and B of 2001. The principal and interest payable on Series A and B of 1998 Bonds by the escrow agent at December 31, 2008 was \$15,115,000, and \$6,626,227, 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.

**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.

**SWAP**

The Authority was notified on March 1, 2009 that JP Morgan Chase Bank is going to exercise the underlying swap transaction on June 1, 2009. The Authority may issue bonds in May, 2009 to refund the Sewer Revenue Bonds, Series of 1999.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ERIE, PENNSYLVANIA**  
**Schedule of Funding Progress - Defined Benefit Retirement Plan**  
**December 31, 2008**

**City of Erie Municipal Retirement Fund**

**Defined Benefit Retirement Plan - Schedule of Funding Progress**

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Total Covered Payroll</i>	<i>UAAL as a Percentage of Total Covered Payroll</i>
<u>City of Erie Officers' and Employees'</u>					
January 1, 2004	\$ 55.7	\$ 64.1	\$ 8.4	\$ 16.2	51.62%
January 1, 2005	\$ 56.1	\$ 68.5	\$ 12.4	\$ 16.4	75.83%
January 1, 2006	\$ 57.0	\$ 69.3	\$ 12.3	\$ 16.0	76.68%
January 1, 2007	\$ 58.7	\$ 69.8	\$ 11.2	\$ 14.7	75.89%
January 1, 2008		<b>Switched to Biennial Valuation</b>			
<u>City of Erie Police Relief and Pension Association</u>					
January 1, 2004	\$ 81.2	\$ 84.9	\$ 3.8	\$ 10.6	35.65%
January 1, 2005	\$ 76.1	\$ 89.6	\$ 13.6	\$ 9.9	136.56%
January 1, 2006		<b>Switched to Biennial Valuation</b>			
January 1, 2007	\$ 72.6	\$ 94.3	\$ 21.7	\$ 9.5	228.71%
January 1, 2008		<b>Biennial Valuation</b>			
<u>City of Erie Firefighter's Pension Fund</u>					
January 1, 2004		<b>Switched to Biennial Valuation</b>			
January 1, 2005	\$ 55.3	\$ 68.2	\$ 12.9	\$ 9.0	142.6%
January 1, 2006		<b>Biennial Valuation</b>			
January 1, 2007	\$ 55.5	\$ 73.8	\$ 18.2	\$ 8.7	209.6%
January 1, 2008		<b>Biennial Valuation</b>			

**CITY OF ERIE, PENNSYLVANIA**  
**General Fund**  
**Budget Comparison Schedule - General Fund**  
**For the Year Ended December 31, 2008**

	<i>Original</i>	<i>Final</i>	<i>Actual Amounts</i>	<i>Variance with Final Budget - Positive/ (Negative)</i>
<b>REVENUES</b>				
Taxes	\$ 35,114,958 *	35,114,958 *	\$ 36,576,591	\$ 1,461,633
Licenses and Permits	2,492,067	2,492,067	3,562,406	1,070,339
Intergovernmental	6,983,302	8,073,502	6,313,749	(1,759,753)
Charges for Services	480,664	480,664	446,416	(34,248)
Fines and Forfeits	1,569,505	1,569,505	1,611,162	41,657
Interest Earnings	700,000	700,000	355,977	(344,023)
Miscellaneous	1,282,757	292,757	383,216	90,459
Total Revenues	<u>48,623,253</u>	<u>48,723,453</u>	<u>49,249,517</u>	<u>526,064</u>
<b>EXPENDITURES</b>				
Current:				
General Government	9,653,121 *	9,428,605 *	7,215,423	2,213,182
Public Safety	34,234,281	34,334,481	33,439,166	895,315
Highways and Streets	7,462,697	7,648,698	8,018,843	(370,145)
Culture and Recreation	1,429,875	1,468,390	1,455,567	12,823
Total Expenditures	<u>52,779,974</u>	<u>52,880,174</u>	<u>50,128,999</u>	<u>2,751,175</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,156,721)</u>	<u>(4,156,721)</u>	<u>(879,482)</u>	<u>3,277,239</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,156,721	4,156,721	4,165,979	9,258
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources And (Uses)	<u>4,156,721</u>	<u>4,156,721</u>	<u>4,165,979</u>	<u>9,258</u>
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>				
Inter-Fund Loan Forgiveness	-	-	1,500,000	1,500,000
Total Special and Extraordinary Items	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
Excess of Revenues Over Expenditures	-	-	4,786,497	4,786,497
Fund Balance (Deficit), January 1, 2008	-	-	(5,615,690)	(5,615,690)
	-	-	-	-
Fund Balance (Deficit), December 31, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (829,193)</u>	<u>\$ (829,193)</u>

\* Reduced by \$4,364,289 for property and earned income taxes levied specifically for debt service and pension related expenditures

**CITY OF ERIE, PENNSYLVANIA**  
**Notes To Required Supplementary Information**  
**On Budgetary Accounting And Control**  
**For The Year Ended December 31, 2008**

**BUDGETARY ACCOUNTING AND CONTROL**

**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.

**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 (HUD Programs and Other Grants) 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.

All Governmental fund budgets are maintained on the cash basis of accounting except that budgetary basis expenditures include purchase orders and contracts issued for goods or services not received at year-end. The actual results of operations are presented in accordance with accounting principles generally accepted in the United States of America and the City's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and the liability incurred. 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 ACCOUNTING AND CONTROL (continued)**

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.

## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**December 31, 2008**

	<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</i>	
	<i>Revolving Account</i>		<i>Obligation Bond Fund</i>	<i>Sewer Revolving Fund</i>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,089,170	\$ 1,271,356	\$ 899,300	\$ 148,901	\$ 3,408,727
Receivables (net of allowance for uncollectibles):					-
Liens	-	-	-	33,951	33,951
Notes	66,834	-	-	-	66,834
Notes Receivable, net of current obligation	414,106	-	-	-	414,106
<b>Total Assets</b>	<b>\$ 1,570,110</b>	<b>\$ 1,271,356</b>	<b>\$ 899,300</b>	<b>\$ 182,852</b>	<b>\$ 3,923,618</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ 164,082	\$ 84,058	\$ (1)	\$ 248,139
Interfund Payable	-	-	24,831	-	24,831
Deferred Revenue	-	-	-	33,951	33,951
<b>Total Liabilities</b>	<b>-</b>	<b>164,082</b>	<b>108,889</b>	<b>33,950</b>	<b>306,921</b>
<b>FUND BALANCES</b>					
Reserved:					
Noncurrent Notes Receivable	414,106	-	-	-	414,106
Unreserved:					
Undesignated	1,156,004	1,107,274	790,411	148,902	3,202,591
<b>Total Fund Balances</b>	<b>1,570,110</b>	<b>1,107,274</b>	<b>790,411</b>	<b>148,902</b>	<b>3,616,697</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,570,110</b>	<b>\$ 1,271,356</b>	<b>\$ 899,300</b>	<b>\$ 182,852</b>	<b>\$ 3,923,618</b>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended December 31, 2008**

	<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>	
<b>REVENUES</b>					
Licenses and Permits	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	2,129,580	-	-	2,129,580
Interest Earnings	59,099	49,744	51,640	3,683	164,166
Miscellaneous	-	5,617	-	-	5,617
Total Revenues	<u>59,099</u>	<u>2,184,941</u>	<u>51,640</u>	<u>3,683</u>	<u>2,299,363</u>
<b>EXPENDITURES</b>					
Current:					
Highways and Streets	-	3,072,458	-	-	3,072,458
Capital Outlay	-	-	1,709,567	-	1,709,567
Total Expenditures	<u>-</u>	<u>3,072,458</u>	<u>1,709,567</u>	<u>-</u>	<u>4,782,025</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>59,099</u>	<u>(887,517)</u>	<u>(1,657,927)</u>	<u>3,683</u>	<u>(2,482,662)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating Transfers (Out)	(45,164)	-	-	-	(45,164)
Total Other Financing Sources and (Uses)	<u>(45,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,164)</u>
Net Change in Fund Balance	13,935	(887,517)	(1,657,927)	3,683	(2,527,826)
Fund Balance, January 1, 2008	1,556,175	1,994,791	2,448,338	145,219	6,144,523
Fund Balance, December 31, 2008	<u>\$ 1,570,110</u>	<u>\$ 1,107,274</u>	<u>\$ 790,411</u>	<u>\$ 148,902</u>	<u>\$ 3,616,697</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Assets**  
**Non-Major Proprietary Funds**  
**December 31, 2008**

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 48,321	\$ 622,219	\$ 670,540
Total Current Assets	<u>48,321</u>	<u>622,219</u>	<u>670,540</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	682,507	-	682,507
Less Accumulated Depreciation & Impairment Reserve	(3,591,552)	-	(3,591,552)
Net Pension Asset	6,658	-	6,658
Total Noncurrent Assets	<u>766,975</u>	<u>-</u>	<u>766,975</u>
Total Assets	<u>\$ 815,296</u>	<u>\$ 622,219</u>	<u>\$ 1,437,515</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 3,054	\$ -	\$ 3,054
Accrued Payroll and Related	2,170	-	2,170
Interfund Payable	992,825	-	992,825
Compensated Absences Payable	1,304	-	1,304
Current Portion of Bonds Payable	2,125,136	-	2,125,136
Due to Other Governments	10,728	-	10,728
Total Current Liabilities	<u>3,135,217</u>	<u>-</u>	<u>3,135,217</u>
Noncurrent Liabilities:			
Compensated Absences Payable	11,357	-	11,357
Claims and Judgments Payable	-	-	-
Deferred Revenue	-	-	-
General Obligation Bonds Payable	-	-	-
Total Noncurrent Liabilities	<u>11,357</u>	<u>-</u>	<u>11,357</u>
Total Liabilities	<u>3,146,574</u>	<u>-</u>	<u>3,146,574</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	(1,358,161)	-	(1,358,161)
Unrestricted	(973,117)	622,219	(350,898)
Total Net Assets	<u>(2,331,278)</u>	<u>622,219</u>	<u>(1,709,059)</u>
Total Liabilities and Net Assets	<u>\$ 815,296</u>	<u>\$ 622,219</u>	<u>\$ 1,437,515</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, 2008**

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 457,968	\$ -	\$ 457,968
Rental Income	126,424	-	126,424
Miscellaneous	202	-	202
Total Operating Revenues	<u>584,594</u>	<u>-</u>	<u>584,594</u>
<b>OPERATING EXPENSES</b>			
Personnel Services	265,347	-	265,347
Other Personnel Services	94,935	-	94,935
Services and Fees	39,542	-	39,542
Utilities	27,832	-	27,832
Rent	36,172	-	36,172
Insurance	5,700	-	5,700
Materials, Supplies, and Maintenance	76,760	-	76,760
Workers Compensation Claims and Other Claims	-	-	-
Depreciation and Amortization	190,076	-	190,076
Other Expenses	4,313	-	4,313
Total Operating Expenses	<u>740,677</u>	<u>-</u>	<u>740,677</u>
Operating Income	<u>(156,083)</u>	<u>-</u>	<u>(156,083)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental Revenue	4,000	-	4,000
Investment Earnings	1,428	16,285	17,713
Interest Expense	(110,392)	-	(110,392)
Total Nonoperating Revenue (Expenses)	<u>(104,964)</u>	<u>16,285</u>	<u>(88,679)</u>
Total Income Before Contributions, Transfers and Special Items	(261,047)	16,285	(244,762)
Transfers (Out)	-	(1,170,000)	(1,170,000)
Change in Net Assets	<u>(261,047)</u>	<u>1,285</u>	<u>(259,762)</u>
Net Assets, January 1, 2008	<u>(2,070,231)</u>	<u>620,934</u>	<u>(1,449,297)</u>
Net Assets, December 31, 2008	<u>\$ (2,331,278)</u>	<u>\$ 622,219</u>	<u>\$ (1,709,059)</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2008**

<b>ASSETS</b>	<i>Deferred Compensation</i>	<i>Officer's and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
Cash and Cash Equivalents	\$ -	\$ 42,754	\$ 3,131,054	\$ 3,552,038	\$ 6,725,846
Investments, at Fair Value					
Common Stocks	-	27,232,177	25,643,900	19,547,345	72,423,422
United States Government and Agency Obligations	-	14,772,958	15,770,050	11,444,861	41,987,869
Corporate Obligations	-	9,240,261	10,534,574	8,204,237	27,979,072
Registered Investment Companies - Mutual Funds	19,119,545	1,450,796	-	100,307	20,670,648
Short-Term Investments	-	4,180,872	-	-	4,180,872
Accrued Investment Income	-	274,682	270,815	210,529	756,026
Total Assets	<u>\$ 19,119,545</u>	<u>\$ 57,194,500</u>	<u>\$ 55,350,393</u>	<u>\$ 43,059,317</u>	<u>\$ 174,723,755</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ 6,500	\$ 8,307	\$ 14,807
Total Liabilities	<u>-</u>	<u>-</u>	<u>6,500</u>	<u>8,307</u>	<u>14,807</u>
<b>NET ASSETS</b>					
Held in Trust for Employees' Pension Benefits	<u>19,119,545</u>	<u>57,194,500</u>	<u>55,343,893</u>	<u>43,051,010</u>	<u>174,708,948</u>
	<u>\$ 19,119,545</u>	<u>\$ 57,194,500</u>	<u>\$ 55,350,393</u>	<u>\$ 43,059,317</u>	<u>\$ 174,723,755</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2008**

<b>ADDITIONS TO NET ASSETS</b>	<i>Deferred Compensation</i>	<i>Officers' and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
Contributions					
Employer	\$ 291,744	\$ 1,851,959	\$ 2,008,878	\$ 1,903,950	\$ 6,056,531
City of Erie Water Authority	-	431,109	-	-	431,109
Plan Members	2,930,318	1,086,551	575,588	434,426	5,026,883
Total Contributions	<u>3,222,062</u>	<u>3,369,619</u>	<u>2,584,466</u>	<u>2,338,376</u>	<u>11,514,523</u>
Investment Earnings					
Net Appreciation (Depreciation) in Fair Value of Investments	(6,758,485)	(17,587,727)	(16,509,281)	(12,745,422)	(53,600,915)
Interest and Dividends	515,478	2,039,401	1,945,310	1,618,636	6,118,825
Other Investment Income	-	-	-	4,129	4,129
Less: Investment Expenses	-	(313,275)	(323,333)	(238,730)	(875,338)
Total Investment Earnings	<u>(6,243,007)</u>	<u>(15,861,601)</u>	<u>(14,887,304)</u>	<u>(11,361,387)</u>	<u>(48,353,299)</u>
Total Additions To Net Assets	<u>(3,020,945)</u>	<u>(12,491,982)</u>	<u>(12,302,838)</u>	<u>(9,023,011)</u>	<u>(36,838,776)</u>
<b>DEDUCTIONS FROM NET ASSETS</b>					
Benefits Paid	3,134,541	4,774,076	6,409,648	5,399,815	19,718,080
Participant Refunds	-	123,170	1,060	-	124,230
Administrative Expenses	144,060	140,225	66,041	84,415	434,741
Total Deductions From Net Assets	<u>3,278,601</u>	<u>5,037,471</u>	<u>6,476,749</u>	<u>5,484,230</u>	<u>20,277,051</u>
Net Increase (Decrease) to Net Assets	(6,299,546)	(17,529,453)	(18,779,587)	(14,507,241)	(57,115,827)
<b>NET ASSETS HELD IN TRUST</b>					
Net Assets, January 1, 2008	25,577,907	74,723,953	74,123,480	57,558,251	231,983,591
Prior Period Adjustment	(158,816)	-	-	-	(158,816)
Net Assets, December 31, 2008	<u>\$ 19,119,545</u>	<u>\$ 57,194,500</u>	<u>\$ 55,343,893</u>	<u>\$ 43,051,010</u>	<u>\$ 174,708,948</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**December 31, 2008**

	<i>Balance at January 1, 2008</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2008</i>
<b>TRAFFIC COURT STATE AND COUNTY FINES</b>				
Assets				
Cash and Cash Equivalents	\$ 51	\$ -	\$ -	\$ 51
Liabilities				
Accounts Payable	\$ 51	\$ -	\$ -	\$ 51
<b>TRAFFIC COURT SECURITY BONDS</b>				
Assets				
Cash and Cash Equivalents	\$ 1,150	\$ 14,047	\$ 14,197	\$ 1,000
Liabilities				
Accounts Payable	\$ 1,150	\$ 14,047	\$ 14,197	\$ 1,000
<b>CABLE TELEVISION SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$ 25,000	\$ -	\$ -	\$ 25,000
Liabilities				
Accounts Payable	\$ 25,000	\$ -	\$ -	\$ 25,000
<b>UNCLAIMED MONIES</b>				
Assets				
Cash and Cash Equivalents	\$ 10,326	\$ 1,466	\$ 1,483	\$ 10,309
Liabilities				
Accounts Payable	\$ 10,326	\$ 1,466	\$ 1,483	\$ 10,309
<b>LAND LIGHTHOUSE SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Accounts Payable	\$ 500	\$ -	\$ -	\$ 500
<b>PROPERTY TAX</b>				
Assets				
Cash and Cash Equivalents	\$ 512,142	\$ 376,682	\$ 512,142	\$ 376,682
Liabilities				
Due to Other Governments	\$ 512,142	\$ 376,682	\$ 512,142	\$ 376,682

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)**  
**December 31, 2008**

	<i>Balance at January 1, 2008</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2008</i>
<b>EARNED INCOME TAX FUND</b>				
Assets				
Cash and Cash Equivalents	\$ 268,569	\$ 889	\$ 269,458	\$ -
Liabilities				
Due to Other Governments	\$ 268,569	\$ 889	\$ 269,458	\$ -
<b>COMMUNITY SERVICES</b>				
Assets				
Cash and Cash Equivalents	\$ 18,099	\$ 28,034	\$ 27,550	\$ 18,583
Liabilities				
Accounts Payable	\$ 18,099	\$ 28,034	\$ 27,550	\$ 18,583
<b>FIRE INSURANCE ESCROW</b>				
Assets				
Cash and Cash Equivalents	\$ 202,288	\$ 92,035	\$ 151,486	\$ 142,837
Liabilities				
Accounts Payable	\$ 202,288	\$ 92,035	\$ 151,486	\$ 142,837
<b>DICKSON TAVERN RENOVATIONS</b>				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Accounts Payable	\$ 500	\$ -	\$ -	\$ 500
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets	\$ 1,038,736	\$ 705,887	\$ 1,198,074	\$ 546,549
Cash and Cash Equivalents				
Liabilities				
Due to Other Governments	\$ 780,822	\$ 570,305	\$ 1,003,358	\$ 347,769
Accounts Payable	257,914	135,582	194,716	198,780
Total Liabilities	\$ 1,038,736	\$ 705,887	\$ 1,198,074	\$ 546,549

## **STATISTICAL SECTION**

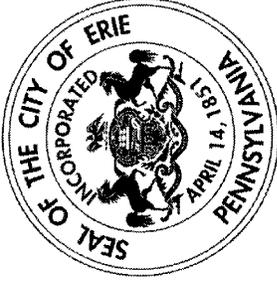
**CITY OF ERIE, PENNSYLVANIA**  
**Net Assets by Component**



	2006	2007	2008
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	(29,508,258)	(24,536,680)	(18,297,167)
Restricted	10,800,861	13,264,402	14,194,851
Unrestricted	11,960,988	22,733,391	27,874,948
Total governmental activities net assets	<u>\$ (6,747,309)</u>	<u>\$ 11,461,113</u>	<u>\$ 23,772,632</u>
<b>Business-type activities</b>			
Invested in capital assets, net of related debt	23,988,617	25,687,055	24,934,938
Restricted	17,226,888	16,498,985	15,416,703
Unrestricted	3,814,895	1,948,507	(1,656,866)
Total business-type activities net assets	<u>\$ 45,030,400</u>	<u>\$ 44,134,547</u>	<u>\$ 38,694,775</u>
<b>Primary government</b>			
Invested in capital assets, net of related debt	(5,519,641)	1,150,375	6,637,771
Restricted	28,027,749	29,763,387	29,611,554
Unrestricted	15,774,983	24,681,898	26,218,082
Total primary government net assets	<u>\$ 38,283,091</u>	<u>\$ 55,595,660</u>	<u>\$ 62,467,407</u>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
Changes in Net Assets



	2006	2007	2008
<b>Expenses</b>			
Governmental activities:			
General government	21,727,971	21,288,335	16,570,309
Public Safety	30,690,994	33,925,376	28,715,597
Highways and streets	5,831,886	9,337,338	9,628,386
Sanitation	317,078	38,220	15,742
Culture and Recreation	753,751	1,423,630	1,600,804
Economic and Community Development	8,410,937	4,658,628	4,716,960
Other	215,827	400,784	830,878
Interest on long-term debt	5,157,303	4,934,985	4,631,566
Total governmental activities expenses	<u>\$ 73,105,747</u>	<u>\$ 76,007,296</u>	<u>\$ 66,710,242</u>
Business-type activities:			
Sewer	24,903,540	26,217,952	25,923,397
Water	538,843	557,768	557,767
Refuse	4,905,609	4,895,783	4,876,998
Other Proprietary Funds	2,557,440	863,375	851,069
Total business-type activities expenses	<u>\$ 32,925,432</u>	<u>\$ 32,534,878</u>	<u>\$ 32,209,231</u>
Total primary government expenses	<u>\$ 106,031,179</u>	<u>\$ 108,542,174</u>	<u>\$ 98,919,473</u>
<b>Program Revenues</b>			
Governmental activities:			
Program revenues:			
Charges for services	434,899	479,453	446,416
Operating grants and contributions	26,503,270	31,019,463	19,684,232
Total governmental activities program revenues	<u>\$ 26,938,169</u>	<u>\$ 31,498,916</u>	<u>\$ 20,130,648</u>
Business-type activities:			
Program revenues:			
Charges for services:	29,334,459	29,996,356	29,137,064
Operating grants and contributions	74,306	-	-
Total business-type activities program revenues	<u>\$ 29,408,765</u>	<u>\$ 29,996,356</u>	<u>\$ 29,137,064</u>
Total primary government program revenues	<u>\$ 56,346,934</u>	<u>\$ 61,495,272</u>	<u>\$ 49,267,712</u>

<b>Net (Expense)/Revenue</b>			
Governmental activities	(46,167,578)	(44,508,380)	(46,579,594)
Business-type activities	(3,516,667)	(2,538,522)	(3,072,167)
Total primary government net expense	<u>\$ (49,684,245)</u>	<u>\$ (47,046,902)</u>	<u>\$ (49,651,761)</u>

**General Revenues and Other Changes in Net Assets**

Governmental activities:			
Taxes			
Property Taxes, General Purposes	24,808,883	24,572,753	27,355,005
Property Taxes, Debt Service	-	5,178,205	4,395,535
Income Taxes	12,721,450	17,440,646	13,227,203
Other taxes	2,193,094	1,439,315	906,901
Licenses and permits	2,564,601	3,105,172	3,562,406
Fines and penalties	1,866,603	1,620,825	1,611,162
Investment earnings	1,943,803	2,152,104	7,083
Transfers	2,520,263	3,575,548	6,980,588
Miscellaneous	-	-	758,448
Total governmental activities	<u>\$ 48,618,697</u>	<u>\$ 59,084,568</u>	<u>\$ 58,804,331</u>
Business-type activities:			
Investment earnings	1,002,861	1,197,218	721,150
Lease Rental	2,631,440	2,740,300	2,857,878
Miscellaneous	796,917	1,297,446	1,033,955
Transfers	(2,520,263)	(3,575,548)	(6,980,588)
Total business-type activities	<u>\$ 1,910,955</u>	<u>\$ 1,659,416</u>	<u>\$ (2,367,605)</u>
Total primary government	<u>\$ 50,529,652</u>	<u>\$ 60,743,984</u>	<u>\$ 56,436,726</u>

**Change in Net Assets**

Governmental activities	2,451,119	14,576,188	12,224,737
Business-type activities	(1,605,712)	(879,106)	(5,439,772)
Total primary government	<u>\$ 845,407</u>	<u>\$ 13,697,082</u>	<u>\$ 6,784,965</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA  
Fund Balances



	2006	2007	2008
<b>General Fund</b>			
Reserved	-	-	-
Unreserved	(10,482,967)	(5,615,785)	(829,193)
Total general fund	<u>\$ (10,482,967)</u>	<u>\$ (5,615,785)</u>	<u>\$ (829,193)</u>
<b>All Other Governmental Funds</b>			
Reserved	10,800,861	13,264,402	14,194,850
Unreserved, reported in:			
Endowment Principal	7,750,000	-	240,742
Undesignated	18,144,464	25,176,033	20,795,281
Total all other governmental funds	<u>\$ 36,695,325</u>	<u>\$ 38,440,435</u>	<u>\$ 35,230,873</u>

Source: City of Erie Finance Office

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**CITY OF ERIE, PENNSYLVANIA**  
 Changes in Fund Balances



	2006	2007	2008
<b>Revenues</b>			
Taxes	41,358,066	\$ 44,917,020	\$ 42,392,319
Licenses and permits	2,564,601	\$ 3,105,172	\$ 3,562,406
Intergovernmental	15,476,926	\$ 17,767,305	\$ 16,882,767
Charges for Services	434,899	\$ 479,453	\$ 446,416
Fines and penalties	1,866,603	\$ 1,620,825	\$ 1,611,162
Investment earnings	1,788,285	\$ 1,899,743	\$ (151,631)
Payment in Lieu of Taxes	597,283	\$ 775,118	\$ 950,759
Miscellaneous	1,570,373	\$ 828,748	\$ 519,544
<b>Total Revenues</b>	<u>\$ 65,657,036</u>	<u>\$ 71,423,381</u>	<u>\$ 66,213,742</u>
<b>Expenditures</b>			
Current:			
General government	6,447,466	\$ 7,825,621	\$ 7,215,423
Public Safety	31,018,251	\$ 33,967,624	\$ 34,190,659
Highways and streets	8,497,794	\$ 10,196,004	\$ 11,726,968
Sanitation	351,382	\$ 1,200,400	\$ 15,742
Culture and Recreation	1,473,531	\$ 1,443,027	\$ 2,221,697
Economic and Community Development	7,439,564	\$ 5,986,802	\$ 5,522,804
Capital Outlay	1,797,081	\$ 1,069,600	\$ 2,011,711
Debt Service:			
Principal	5,700,324	\$ 5,269,160	\$ 5,634,765
Interest	3,537,789	\$ 3,510,009	\$ 3,164,315
<b>Total Expenditures</b>	<u>\$ 66,263,182</u>	<u>\$ 70,468,247</u>	<u>\$ 71,704,081</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(606,146)</u>	<u>955,137</u>	<u>(5,490,342)</u>

**Other Financing Sources and (Uses)**

Operating Transfers In	2,614,647	\$ 3,587,382	\$ 7,057,010
Operating Transfers (Out)	(52,228)	\$ (11,834)	\$ (76,422)
Total Other Financing Sources and (Uses)	<u>\$ 2,562,419</u>	<u>\$ 3,575,548</u>	<u>\$ 6,980,588</u>

Net Change in Fund Balances 1,956,273 4,530,685 1,490,246

Debt service as a % of noncapital expenditures 14.33% 12.65% 12.63%

Source: City of Erie Finance Office

	64,466,101	69,398,647	69,692,373
\$	9,238,113	\$ 8,779,169	\$ 8,799,080
	0.1433	0.1265	0.1263

**CITY OF ERIE, PENNSYLVANIA**

Assessed Value and Estimated Actual Value of Taxable Property



Fiscal Year	Residential	Commercial	Industrial/Utility	Tax Exempt	Total Taxable	Total
	Property	Property	Property	Property	Assessed Value	Direct Tax Rate
2006	1,865,389,878	599,064,318	101,998,980	953,814,510	2,566,453,176	\$ 10.21
2007	1,853,976,500	598,279,877	101,214,539	978,506,732	2,553,470,917	\$ 11.45
2008	1,844,623,465	602,994,779	97,451,880	1,055,517,035	2,545,070,124	\$ 11.45

Source: City of Erie Treasurer's Office

**CITY OF ERIE, PENNSYLVANIA**  
 Direct and Overlapping Property Tax Rates

(rate per \$1,000 of assessed value)



City Direct Rates

Overlapping Rates

<u>Fiscal Year</u>	<u>Basic Rate</u>	<u>General Obligation Debt Service</u>	<u>Total Direct Rate</u>	<u>Eric School District</u>	<u>Eric County</u>
2006	\$7.87	\$2.34	\$10.21	\$17.0687	\$4.95
2007	\$9.39	\$2.06	\$11.45	\$17.0687	\$5.20
2008	\$9.59	\$1.86	\$11.45	\$17.0687	\$5.20

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

CITY OF ERIE, PENNSYLVANIA  
 Principal Property Tax Payers  
 2008



<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Baldwin Brothers	\$ 32,912,850	1.29%
Eric Insurance	32,107,000	1.26%
Catherine and Adam Levin Trust	13,539,530	0.53%
General Telephone	12,361,200	0.49%
Stephen McGarvey	9,517,810	0.37%
Rick Griffith	9,200,400	0.36%
Four C's LLC	8,597,500	0.34%
Lord Corp	7,674,500	0.30%
Missouri River Corp.	7,400,000	0.29%
Bayside Development	7,108,340	0.28%
	\$ 140,419,130	5.52%

Source: Erie County Assessment Office

**CITY OF ERIE, PENNSYLVANIA**  
 Property Tax Levies and Collections



<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	\$ 23,651,182	90.26%	\$ 1,569,615	\$ 25,220,797	96.25%
2007	\$ 29,237,242	\$ 26,405,839	90.32%	\$ 714,732	\$ 27,120,571	92.76%
2008	\$ 29,141,053	\$ 26,192,965	89.88%	\$ -	\$ 26,192,965	89.88%

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

**CITY OF ERIE, PENNSYLVANIA**  
 Ratios of Outstanding Debt by Type  
 2008



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		
2007	\$ 86,162,921	\$ -	\$ 19,603,150	\$ 2,168,000	\$107,934,071	3.90%	\$ 1,051.87		
2008	\$ 82,093,153	\$ -	\$ 19,744,584	\$ 2,125,136	\$103,962,873	3.31%	\$ 1,001.41		

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA  
 Ratios of General Bonded Debt Outstanding  
 2008



<u>General Bonded Debt Outstanding</u>				Percentage of Actual Taxable Value of Property	Per Capita
<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Other Bonds (Revenue, Special Assessment, etc.)</u>	<u>Total</u>		
2006	\$ 109,520,461	\$ -	\$ 109,520,461	4.27%	\$ 1,067.33
2007	\$ 105,766,071	\$ -	\$ 105,766,071	4.14%	\$ 1,020.42
2008	\$ 101,837,737	\$ -	\$ 101,837,737	4.00%	\$ 980.94

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Direct and Overlapping Governmental Activities Debt

2008



<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 (B)	23,605,814	100.00%	23,605,814
2001 General Obligation Bond (B)	6,970,000	100.00%	6,970,000
2001 General Obligation Bond (C)	11,802,343	100.00%	11,802,343
2001 General Obligation Bond (D)	14,990,000	100.00%	14,990,000
2001 General Obligation Bond (E)	7,557,200	100.00%	7,557,200
2001 General Obligation Bond (F)	7,963,200	100.00%	7,963,200
2003 General Obligation term note	250,000	100.00%	250,000
2004 General Obligation Bond (A)	6,880,000	100.00%	6,880,000
2004 General Obligation Bond (B)	1,450,000	100.00%	1,450,000
Accured Interest	591,704	100.00%	591,704
Leases	32,892	100.00%	32,892
<b>Total City Direct Debt</b>	<b>\$ 82,093,153</b>		<b>\$ 82,093,153</b>
County of Erie	\$ 81,128,525	40.00%	\$ 32,451,410
Eric School District	\$ 111,046,608	100.00%	\$ 111,046,608
Eric Sewer Authority	\$ 50,704,044	70.00%	\$ 35,492,831
Eric Parking Authority	\$ 28,609,750	100.00%	\$ 28,609,750
Eric Water Authority	\$ 189,251,422	70.00%	\$ 132,475,995
<b>Total Overlapping Debt</b>	<b>\$ 460,740,349</b>		<b>\$ 340,076,594</b>
<b>Total Direct and Overlapping Debt</b>			<b>\$ 422,169,747</b>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
 Computation of Legal Debt Margin  
 2008



**Nonelectoral Debt Incurring Capacity:**

Borrowing base(1)	\$	88,378,222
Percentage limitation		250
Net nonelectoral debt limit	\$	<u>220,945,555</u>
Less: net nonelectoral debt incurred		82,093,153
Add: current principal appropriation		6,435,000
Remaining nonelectoral debt incurring capacity	\$	<u><u>145,287,402</u></u>

**Nonelectoral Plus Lease Rental Debt Incurring Capacity:**

Borrowing base(1)	\$	88,378,222
Percentage limitation		350
Net nonelectoral plus lease rental debt limit	\$	<u>309,323,777</u>
Less: net nonelectoral debt plus lease rental debt incurred		350,658,369
Add: current principal appropriation		14,105,150
Remaining nonelectoral plus lease rental debt incurring capacity	\$	<u><u>(27,229,442)</u></u>

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

# CITY OF ERIE, PENNSYLVANIA

## Demographic and Economic Statistics



Year:	2006	2007	2008
Population*	102,612	103,650	103,817
Personal Income (thousands of dollars)	2,770,421	2,981,700	3,142,979
Per Capita Personal Income (dollars)	26,999	28,767	30,323
Median Age	34.0	34.5	34.1
High School Graduate, % of persons age 25+	79.9	82.6	84.5
Bachelor's degree or higher, % of persons age 25+	17.4	17.2	18.2
Unemployment Rate	5.20%	4.80%	5.70%

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 2008.

CITY OF ERIE, PENNSYLVANIA

Principal Employers

2008



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	2,200	1.69%
Erie Insurance Group	Insurance, Risk Management	2,000	1.54%
Erie School District	Public School Facilities	1,600	1.23%
Gertrude Barber Center	Special Education Facility	1,000	0.77%
Gannon University	Higher Education	700	0.54%
City of Erie	Government	669	0.51%
Lord Corporation	Aerospace and Industrial Products	650	0.50%
Telatron Marketing Group	Telemarketing	600	0.46%

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 Employees by Function/Department



Function/Department	Full-time Employees		
	2006	2007	2008
General Government			
Administration	20	20	18
Controller's Office	3	3	3
Treasurer's Office	6	6	6
Finance & Purchasing	11	11	11
Economic and Community Development	13	13	13
Other	10	10	11
Police			
Officers	167	167	167
Civilians	42	43	39
Fire			
Firefighters and Officers	134	134	134
Civilians	16	16	16
Public Works			
Code Enforcement	14	14	14
Engineering	7	7	7
Streets	48	48	48
Parks & Recreation	11	11	12
Golf	3	2	2
Refuse	39	39	32
Sewer	92	92	88
Other	33	33	35
Total:	669	669	656

Source: City of Erie Finance Office