



2010  
COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT

YEAR ENDING DECEMBER 31, 2010

CITY OF ERIE  
PENNSYLVANIA

Joseph E. Sinnott, Mayor

CITY OF ERIE, PENNSYLVANIA

Comprehensive Annual Financial Report



Prepared By:

Department of Administration and Finance

This Page Intentionally Left Blank

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

**Year ended December 31, 2010**

**Table of Contents**

INTRODUCTORY SECTION:

Organizational Chart .....	1
List of Principal Officials.....	2

FINANCIAL SECTION:

INDEPENDENT AUDITOR’S REPORT .....	3
------------------------------------	---

REQUIRED SUPPLEMENTARY INFORMATION:

Management's Discussion and Analysis .....	5
--	---

BASIC FINANCIAL STATEMENTS:

Statement

*Government-wide Financial Statements:*

1	Statement of Net Assets.....	15
2	Reconciliation of the Balance Sheet to the Statement of Net Assets .....	16
	Statement of Activities .....	17

*Fund Financial Statements:*

3	Balance Sheet - Governmental Funds.....	19
4	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	21
5	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	23
6	Statement of Net Assets - Proprietary Funds.....	24
7	Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	26
8	Statement of Cash Flows - Proprietary Funds .....	27
9	Statement of Fiduciary Net Assets .....	29
10	Statement of Changes in Fiduciary Net Assets.....	30
11	Statement of Net Assets – Component Units.....	31
12	Statement of Activities – Component Units .....	32
13	Statement of Cash Flows – Component Units.....	33
	Notes to Basic Financial Statements.....	35

REQUIRED SUPPLEMENTARY INFORMATION:

1	Schedule of Funding Progress – Defined Benefit Retirement Plan.....	87
2	Budget Comparison Schedule – General Fund .....	88
3	Notes to Required Supplemental Information On Budgetary Accounting And Control .....	89

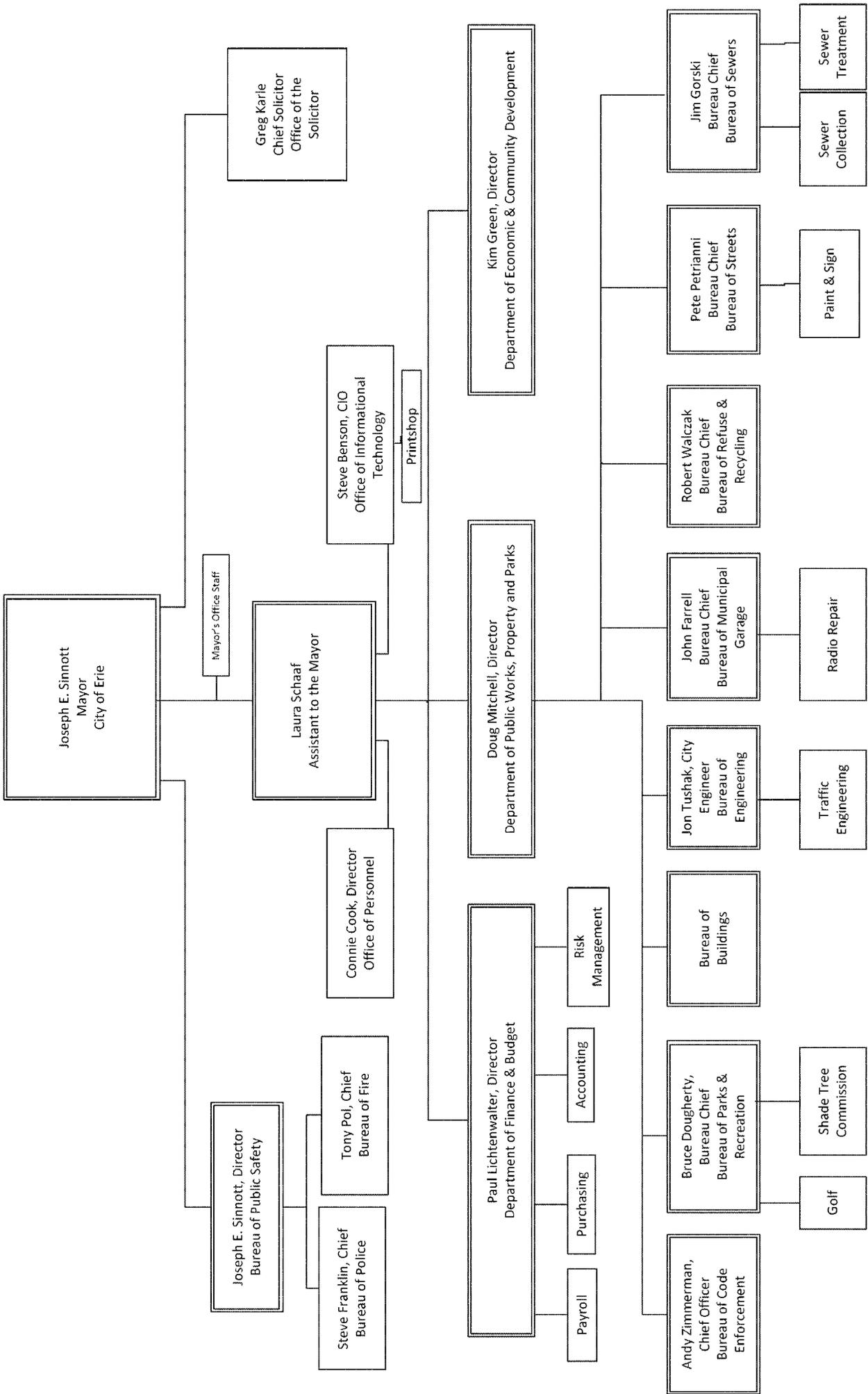
OTHER SUPPLEMENTAL INFORMATION:

1	Combining Balance Sheet – Non-Major Governmental Funds .....	91
2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds .....	92
3	Combining Statement of Net Assets – Non-Major Proprietary Funds.....	93
4	Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Non-Major Proprietary Funds .....	94
5	Combining Statement of Net Assets – Fiduciary Funds .....	95
6	Combining Statement of Changes in Net Assets – Fiduciary Funds .....	96
7	Combining Statement of Changes in Assets and Liabilities – Agency Funds .....	97

STATISTICAL SECTION:

General Fund:

Net Asset by Component .....	99
Changes in Net Assets.....	100
Fund Balances of Governmental Funds .....	103
Changes in Fund Balances of Governmental Funds .....	104
Assessed Value and Estimated Actual Value of Taxable Property.....	106
Property Tax Rates - Direct and Overlapping Property Tax Rates.....	107
Principal Property Tax Payers.....	108
Property Tax Levies and Collections .....	109
Ratios of Outstanding Debt by Type.....	110
Ratios of General Bonded Debt Outstanding .....	111
Direct and Overlapping Governmental Activities Debt.....	112
Legal Debt Margin Information .....	113
Demographic and Economic Statistics.....	114
Principal Employers .....	115
Full-Time City Government Employees by Function.....	116



**CITY OF ERIE, PENNSYLVANIA**

Comprehensive Annual Financial Report  
Year ended December 31, 2010

**PRINCIPAL CITY OFFICIALS**

**MAYOR**

Joseph E. Sinnott

**CITY COUNCIL**

Jessica Horan-Kunco, President

Mark Aleksandrowicz

Joseph Schember

Patrick Cappabianca

Joel Schwartz

Curtis Jones, Jr.

James Winarski

**CITY OFFICIALS**

Susan E. DiVecchio . . . . . City Treasurer

Casimir J. Kwitowski . . . . . City Controller

Gregory Karle . . . . . City Solicitor

James E. Klemm . . . . . City Clerk

Paul Lichtenwalter . . . . . 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, 2010, 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 26 percent, 45 percent, and 21 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, 2010, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Erie, Pennsylvania's basic financial statements as a whole. The introductory section, 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*McGill, Power, Bell & Associates, LLP*

**McGill, Power, Bell & Associates, LLP**  
Erie, Pennsylvania  
November 15, 2011

**CITY, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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, 2010. 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 exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$39.9 million. This represents an increase of 16% over last fiscal year's restated net assets of \$34.4 million.
- During the year, the City had governmental expenses that were \$4.1 million less than the \$74.9 million generated in tax and other revenues for governmental programs. This difference was greater last year, when expenses were less than revenues by \$3.4 million.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of \$33.0 million. Within this total \$16.1 million is reserved for noncurrent notes receivable and \$784,493 million for debt service. A combined \$3.1 million is designated for general fund and debt service expenditures and \$13.0 million is in the special revenue, capital projects and other funds which contain grant and other spending restrictions.
- In the City's business-type activities, operating revenues increased by \$4.5 million (or 15%) while operating expenses decreased by \$1.2 million (or 4%).
- The general fund reported a surplus this year of \$2.3 million. As result of the surplus general fund's fund balance ended the year with a positive \$5.0 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the City's basic financial statements. The City'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's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City'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 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, 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 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 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 \$39.9 million (excess of total assets over total liabilities) as of December 31, 2010. Analyzing the net assets of governmental and business-type activities separately, the governmental activities are \$8.4 million and business-type activities are \$31.5 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 (56%) 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>
	<i>(Dec)</i>	<i>(Dec)</i>		<i>(Dec)</i>	<i>(Dec)</i>		<i>(Dec)</i>	<i>(Dec)</i>	
	2010	2009		2010	2009		2010	2009	
Current and other assets	\$ 55,256	\$ 56,267	-2%	\$ 43,232	\$ 26,420	64%	\$ 98,488	\$ 82,687	19%
Capital assets	43,553	42,127	3%	80,101	82,902	-3%	123,654	125,029	-1%
Total assets	<u>98,809</u>	<u>98,394</u>	0%	<u>123,333</u>	<u>109,322</u>	13%	<u>222,142</u>	<u>207,716</u>	7%
Current and other liabilities:	25,678	25,979	-1%	14,147	13,931	2%	39,825	39,910	0%
Long-term liabilities	64,702	68,114	-5%	77,731	65,791	18%	142,433	133,905	6%
Total liabilities	<u>90,380</u>	<u>94,093</u>	-4%	<u>91,878</u>	<u>79,722</u>	15%	<u>182,258</u>	<u>173,815</u>	5%
Net assets:									
Invested in capital assets, net of related debt	(18,762)	(24,455)	-23%	3,776	14,520	-74%	(14,986)	(9,935)	51%
Restricted	17,986	21,793	-17%	29,591	14,347	106%	47,577	36,140	32%
Unrestricted	9,205	6,963	32%	(1,912)	733	-361%	7,293	7,696	-5%
Total net assets	<u>\$ 8,429</u>	<u>\$ 4,301</u>	96%	<u>\$ 31,455</u>	<u>\$ 29,600</u>	6%	<u>\$ 39,884</u>	<u>\$ 33,901</u>	18%

**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>		% Inc (Dec)	<i>Business-Type Activities</i>		% Inc (Dec)	<i>Total</i>		% Inc (Dec)	
	<i>2010</i>	<i>2009</i>		<i>2010</i>	<i>2009</i>		<i>2010</i>	<i>2009</i>		
<b>Revenues</b>										
<b>Program Revenues:</b>										
Charges for services	\$ 444	\$ 425	4%	\$ 33,379	\$ 28,900	15%	\$ 33,823	\$ 29,325	15%	
Operating grants and contributions	22,692	19,853	14%	-	-	0%	22,692	19,853	14%	
<b>General revenues:</b>										
Property tax	31,763	30,462	4%	-	-	0%	31,763	30,462	4%	
Income tax	12,829	12,769	0%	-	-	0%	12,829	12,769	0%	
Other	972	872	11%	-	-	0%	972	872	11%	
Other general revenues	6,157	6,169	0%	4,855	5,994	-19%	11,012	12,163	-9%	
<b>Total revenues</b>	<b>74,857</b>	<b>70,550</b>	<b>6%</b>	<b>38,234</b>	<b>34,894</b>	<b>10%</b>	<b>113,091</b>	<b>105,444</b>	<b>7%</b>	
<b>Expenses</b>										
General government	18,581	24,236	-23%	-	-	0%	18,581	24,236	-23%	
Public safety	33,935	30,296	12%	-	-	0%	33,935	30,296	12%	
Highway and streets	9,397	6,537	44%	-	-	0%	9,397	6,537	44%	
Sanitation	371	-	n/a	-	-	0%	371	-	n/a	
Culture and recreation	1,397	1,521	-8%	-	-	0%	1,397	1,521	-8%	
Economic and community development	6,534	5,053	29%	-	-	0%	6,534	5,053	29%	
Other	142	-	n/a	-	-	0%	142	-	n/a	
Interest on long-term debt	5,571	4,376	27%	-	-	0%	5,571	4,376	27%	
Sewer	-	-	0%	25,319	26,750	-5%	25,319	26,750	-5%	
Water	-	-	0%	555	555	0%	555	555	0%	
Refuse	-	-	0%	4,717	4,800	-2%	4,717	4,800	-2%	
Other proprietary funds	-	-	0%	590	770	-23%	590	770	-23%	
<b>Total expenses</b>	<b>75,928</b>	<b>72,019</b>	<b>5%</b>	<b>31,181</b>	<b>32,875</b>	<b>-5%</b>	<b>107,109</b>	<b>104,894</b>	<b>2%</b>	
Excess (deficiency) of revenues over expenses before capital contributions and transfers	(1,071)	(1,469)		7,053	2,019		5,982	550		
Transfers	5,198	4,886	6%	(5,198)	(4,886)	6%	-	-	0%	
Increase (decrease) in net assets	4,127	3,417	21%	1,855	(2,867)	-165%	5,982	550	988%	
Net Assets - Beginning of Year (Restated)	4,301	884		29,600	32,467		33,901	33,351		
Net Assets - End of Year	\$ 8,428	\$ 4,301		\$ 31,455	\$ 29,600		\$ 39,883	\$ 33,901		

**Table 3**

City of Erie, Pennsylvania						
Governmental Activities						
(amounts expressed in thousands)						
	<u>Total Cost of Services</u>		<i>% Inc</i>	<u>Net Cost of Services</u>		<i>% Inc</i>
	2010	2009	(Dec)	2010	2009	(Dec)
Governmental Activities:						
General government	\$ 18,581	\$ 24,236	-23%	\$ (11,214)	\$ (16,772)	-33%
Public safety	33,935	30,296	12%	(32,638)	(28,607)	14%
Highways and streets	9,397	6,537	44%	(4,831)	(2,246)	115%
Sanitation	371	-	n/a	771	284	171%
Culture and recreation	1,397	1,521	-8%	(1,305)	(1,331)	-2%
Economic and community development	6,534	5,053	29%	2,138	1,308	63%
Other governmental funds	142	-	n/a	(142)	-	n/a
Totals	<u>\$ 70,357</u>	<u>\$ 67,643</u>	4%	<u>\$ (47,221)</u>	<u>\$ (47,364)</u>	0%

*Business-Type Activities.* Revenues of the City's business-type activities (see Table 2) increased by 10% (\$38.2 million in 2010 compared to \$34.9 million in 2009) and expenses decreased by 5% (\$31.2 million in 2010 compared to \$32.9 million in 2009).

**Table 4**

City of Erie, Pennsylvania						
Business Activities						
(amounts expressed in thousands)						
	<u>Total Cost of Services</u>		<i>% Inc</i>	<u>Net Cost of Services</u>		<i>% Inc</i>
	2010	2009	(Dec)	2010	2009	(Dec)
Business-Type Activities:						
Sewer	\$ 25,319	\$ 26,750	-5%	\$ 973	\$ (3,652)	-127%
Water	555	555	0%	(555)	(555)	0%
Refuse	4,717	4,800	-2%	1,940	546	255%
Other proprietary funds	590	770	-23%	(160)	(314)	-49%
Totals	<u>\$ 31,181</u>	<u>\$ 32,875</u>	-5%	<u>\$ 2,198</u>	<u>\$ (3,975)</u>	-155%

## CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets.* The City's investment in capital assets as of December 31, 2010, amounted to \$123.7 million (net of accumulated depreciation). This investment, detailed in Table 5, is 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 \$1.4 million or a 1% decrease from the prior year.

**Table 5**

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Land	\$ 13,997	\$ 13,997	\$ 731	\$ 731	\$ 14,728	\$ 14,728
Building and improvement: Improvements other than buildings	3,003	3,141	39,524	42,803	42,527	45,944
Equipment and vehicles	1,042	1,130	11,001	11,484	12,043	12,614
Infrastructure	5,416	6,192	25,323	24,924	30,739	31,116
	20,095	17,647	3,522	2,961	23,617	20,608
Capital assets, net	<u>\$ 43,553</u>	<u>\$ 42,107</u>	<u>\$ 80,101</u>	<u>\$ 82,903</u>	<u>\$ 123,654</u>	<u>\$ 125,010</u>

There were several large fixed asset additions during 2010 including a compost turner purchased for \$356,250 and improvements to the City's downtown State Street area totaling \$854,198. A large portion of these State Street improvements were funded through the American Recovery and Reinvestment Act of 2009.

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 the current year, the City's total long-term debt outstanding is \$156.3 million. This amount was largely comprised of \$155.4 million in general obligation bonds.

**Table 6**

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Accrued Interest	\$ 17,476	\$ 15,971	\$ 4,759	\$ 4,264	\$ 22,235	\$ 20,235
General obligation bonds (backed by the City)	56,212	61,836	76,919	64,436	133,131	126,272
Swap liability	-	-	587	587	587	587
Capital leases	382	25	-	-	382	25
<b>Total</b>	<b>\$ 74,070</b>	<b>\$ 77,832</b>	<b>\$ 82,265</b>	<b>\$ 69,287</b>	<b>\$ 156,335</b>	<b>\$ 147,119</b>

The City's total long-term debt increased by \$9.2 million, or 6%, during the current year. This increase was due to an Erie Sewer Authority bond issue totaling \$15.7 million on January 1, 2010.

*Bond Ratings.* The City's debt rating was BBB by Standard & Poor's as of December 31, 2010. 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, 2010, the governmental funds of the City reported a combined fund balance of \$33.0 million. This ending balance includes an increase in fund balance of \$2.3 million in the City's General Fund. In addition, these other changes to fund balances should be noted:

- The City's Debt Service deficit fund balance of \$1.1 million decreased by \$5.2 million from the prior year fund balance.
- The City's Capital Improvements fund increased by \$3.0 million, during the latest year thereby increasing ending fund balance to \$11.1 million.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

For 2010, actual expenditures on a budgetary basis were \$56.9 million compared to the budget amount of \$58.1 million. This resulted in a positive variance of \$1.1 million.

For 2010, actual revenues on a budgetary basis were \$51.4 million as compared to the budget amount of \$53.2 million. This resulted in a negative variance of \$1.8 million.

The City has, on a budgetary basis, an actual General Fund deficit balance of \$1.7 million as of the year end, compared to the budgeted balance of zero (including \$4.9 million in Other Financing Sources). (*See Budget Comparison Schedule – General Fund, page 88*) The variance in fund balance is due to the decrease of revenues and 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 2011 budget, such as tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$60.5 million. This represents an increase of \$2.4 million from the 2010 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for 2011 is 11.45 mills (.01145 per \$1,000 valuation). Of this tax rate 88% or 10.05 mills are utilized for General Fund activities. The remaining 12% or 1.40 mills are used for debt service. The General Fund's portion of property tax revenue for 2011 is estimated to be \$26.5 million, which is the same as 2010.

## **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, 626 State Street – Room 309, Erie, Pennsylvania 16501.

## BASIC FINANCIAL STATEMENTS

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**December 31, 2010**  
**(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	\$ 17,403,436	\$ 5,794,022	\$ 23,197,458	\$ 2,888,777
Investments	7,852,620	3,782,099	11,634,719	298,255
Receivables (net of allowance for uncollectibles)	11,563,918	2,788,444	14,352,362	4,493,466
Internal Balances	868,399	(868,399)	-	-
Inventories	-	-	-	250,553
Prepaid Items	25,000	4,662,400	4,687,400	517,664
Restricted Assets:				
Cash and Cash Equivalents	1,000,000	23,900,584	24,900,584	3,529,830
Investments	-	1,301,806	1,301,806	6,481,348
Capital Assets:				
Non-depreciable	13,997,450	730,999	14,728,449	1,887,859
Depreciable (Net)	29,555,510	79,369,873	108,925,383	53,890,710
Bond Issue Costs (Net)	147,885	1,758,871	1,906,756	1,372,646
Long-Term Receivable	16,201,802	-	16,201,802	590,885
Net Pension Benefit Asset	192,579	112,406	304,985	478,269
Total Assets	<u>\$ 98,808,599</u>	<u>\$ 123,333,105</u>	<u>\$ 222,141,704</u>	<u>\$ 76,680,262</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,384,026	\$ 406,501	\$ 1,790,527	\$ 2,639,254
Accrued Liabilities	1,430,645	126,309	1,556,954	1,367,190
Other Current Liabilities	4,339,074	-	4,339,074	909,363
Deferred Revenue	1,047,698	8,850,567	9,898,265	-
Due to Other Governments	-	4,006	4,006	-
Non-Current Liabilities				
Due Within One Year				
Compensated Absences	382,047	17,953	400,000	-
Accrued Interest Payable	-	206,114	206,114	-
Bonds, Notes and Leases Payable	6,613,622	4,028,700	10,642,322	2,743,701
Due In More Than One Year				
Compensated Absences	4,410,232	207,243	4,617,475	-
Accrued Interest Payable	17,476,122	4,553,003	22,029,125	526,678
Bonds, Notes and Leases Payable	49,979,946	73,477,398	123,457,344	33,720,578
Net OPEB Obligation	1,841,960	-	1,841,960	1,316,808
Claims Liabilities	1,474,635	-	1,474,635	-
Total Liabilities	<u>90,380,007</u>	<u>91,877,794</u>	<u>182,257,801</u>	<u>43,223,572</u>
<b>NET ASSETS</b>				
Invested in Capital Assets (net of related debt)	(18,761,730)	3,776,511	(14,985,219)	26,559,706
Restricted for:				
Noncurrent Notes Receivable	16,201,802	-	16,201,802	-
Debt Service	784,493	-	784,493	-
Other	1,000,000	29,590,724	30,590,724	7,447,341
Unrestricted	6,858,815	(1,911,924)	4,946,891	(550,357)
Designated for Future Catastrophic Losses (Note B)	2,345,212	-	2,345,212	-
Total Net Assets	<u>8,428,592</u>	<u>31,455,311</u>	<u>39,883,903</u>	<u>33,456,690</u>
Total Liabilities and Net Assets	<u>\$ 98,808,599</u>	<u>\$ 123,333,105</u>	<u>\$ 222,141,704</u>	<u>\$ 76,680,262</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**December 31, 2010**

Fund Balances – total governmental funds \$ 33,031,193

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

Prepaid assets 172,885

Net Pension Asset 192,579

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$91,161,397 and the accumulated depreciation is \$47,608,437. 43,552,960

Property tax and earned income tax 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. 1,975,623

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

Bonds, notes and leases payable (56,593,568)

Accrued interest on the bonds (17,476,122)

Deferred Revenue for items not earned at year end 3,876,445

Liabilities for accrued obligations (5,363,003)

Additional accounts and notes receivable accrued for the statement of activities 75,143

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. 4,984,457

Net assets of governmental activities \$ 8,428,592

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**For the Year Ended December 31, 2010**  
**(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	\$ 18,580,824	\$ 443,899	\$ 6,923,384	\$ -
Public safety	33,934,986	-	1,296,724	-
Highways and streets	9,397,287	-	4,565,951	-
Sanitation	371,341	-	1,142,131	-
Culture and recreation	1,396,870	-	92,325	-
Economic and community development	6,534,114	-	8,671,781	-
Other	141,960	-	-	-
Interest on long-term debt	5,570,820	-	-	-
<b>Total Governmental Activities</b>	<b>75,928,202</b>	<b>443,899</b>	<b>22,692,296</b>	<b>-</b>
Business-Type activities:				
Sewer	25,319,321	26,292,684	-	-
Water	554,755	-	-	-
Refuse	4,716,527	6,656,640	-	-
Other proprietary funds	590,217	429,834	-	-
<b>Total Business-Type Activities</b>	<b>31,180,820</b>	<b>33,379,158</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 107,109,022</b>	<b>\$ 33,823,057</b>	<b>\$ 22,692,296</b>	<b>\$ -</b>
Discretely presented component units	\$ 31,641,762	\$ 11,669,126	\$ 14,604,387	\$ 2,903,310

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities (Continued)**  
**For the Year Ended December 31, 2010**

<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	\$ (11,213,541)	\$ -	\$ (11,213,541)	\$ -
Public safety	(32,638,262)	-	(32,638,262)	-
Highways and streets	(4,831,336)	-	(4,831,336)	-
Sanitation	770,790	-	770,790	-
Culture and recreation	(1,304,545)	-	(1,304,545)	-
Economic and community development	2,137,667	-	2,137,667	-
Other	(141,960)	-	(141,960)	-
Interest on long-term debt	(5,570,820)	-	(5,570,820)	-
<b>Total Governmental Activities</b>	<b>(52,792,007)</b>	<b>-</b>	<b>(52,792,007)</b>	<b>-</b>
Business-Type activities:				
Sewer	-	973,363	973,363	-
Water	-	(554,755)	(554,755)	-
Refuse	-	1,940,113	1,940,113	-
Other proprietary funds	-	(160,383)	(160,383)	-
<b>Total Business-type Activities</b>	<b>-</b>	<b>2,198,338</b>	<b>2,198,338</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ (52,792,007)</b>	<b>\$ 2,198,338</b>	<b>\$ (50,593,669)</b>	<b>\$ -</b>
Discretely presented component units				<b>\$ (2,464,939)</b>
General Revenues:				
Taxes:				
Property taxes	\$ 31,763,153	\$ -	\$ 31,763,153	\$ -
Income taxes	12,829,246	-	12,829,246	-
Other	971,528	-	971,528	-
Licenses and permits	2,565,151	-	2,565,151	-
Fines and forfeits	1,734,819	-	1,734,819	-
Investment income	1,319,303	458,847	1,778,150	179,219
Lease rental	-	3,095,955	3,095,955	-
Miscellaneous	537,485	1,300,764	1,838,249	156,714
Transfers	5,198,433	(5,198,433)	-	-
<b>Total General Revenues and Transfers</b>	<b>56,919,118</b>	<b>(342,867)</b>	<b>56,576,251</b>	<b>335,933</b>
Changes in net assets	4,127,111	1,855,471	5,982,582	(2,129,006)
Net assets - Beginning of Year (Restated)	4,301,481	29,599,840	33,901,321	35,585,696
Net assets - End of Year	<b>\$ 8,428,592</b>	<b>\$ 31,455,311</b>	<b>\$ 39,883,903</b>	<b>\$ 33,456,690</b>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**

**Balance Sheet**

**Governmental Funds**

**December 31, 2010**

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 5,563,934	\$ 856,194	\$ 909	\$ 2,043,408
Investments	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Property Tax	3,683,612	513,140	-	-
Earned Income and Local Services Tax	1,379,035	782,303	-	-
Liens	101,027	-	212,188	-
Intergovernmental	307,353	-	781,098	808,759
Interfund	3,218,274	3,909,071	-	-
Notes	-	-	10,054	468,016
Other	417,644	-	-	-
Notes Receivable, net of current obligation	-	-	9,076,274	4,391,224
Total Assets	<u>\$ 14,670,879</u>	<u>\$ 6,060,708</u>	<u>\$ 10,080,523</u>	<u>\$ 7,711,407</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 199,790	\$ 481	\$ 619,694	\$ 353,395
Accrued Payroll and Related	1,206,737	11	-	401
Interfund Payable	3,957,885	2,001,387	161,420	7,399
Compensated Absences Payable	382,047	-	-	-
Deferred Revenue	3,898,226	469,934	212,188	703,359
Other Liabilities	64,892	4,662,400	-	-
Total Liabilities	<u>9,709,577</u>	<u>7,134,213</u>	<u>993,302</u>	<u>1,064,554</u>
<b>FUND BALANCES</b>				
Reserved:				
Noncurrent Notes Receivable	-	-	9,076,274	4,391,224
Debt Service	784,493	-	-	-
Unreserved:				
Designated for Subsequent Years Expenditures	-	-	-	-
Undesignated:				
General Fund	4,176,809	-	-	-
Debt Service Fund	-	(1,073,505)	-	-
HUD Programs	-	-	10,947	-
Other Grants	-	-	-	2,255,629
Capital Improvements	-	-	-	-
Other Governmental	-	-	-	-
Total Fund Balances	<u>4,961,302</u>	<u>(1,073,505)</u>	<u>9,087,221</u>	<u>6,646,853</u>
Total Liabilities and Fund Equity	<u>\$ 14,670,879</u>	<u>\$ 6,060,708</u>	<u>\$ 10,080,523</u>	<u>\$ 7,711,407</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Balance Sheet (Continued)**  
**Governmental Funds**  
**December 31, 2010**

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 802,371	\$ 2,259,636	\$ 11,526,452
Investments	7,852,620	-	7,852,620
Receivables (net of allowance for uncollectibles):			
Property Tax	-	-	4,196,752
Earned Income and Local Services Tax	-	-	2,161,338
Liens	-	43,034	356,249
Intergovernmental	-	-	1,897,210
Interfund	43,311	-	7,170,656
Notes	-	72,288	550,358
Other	-	-	417,644
Notes Receivable, net of current obligation	2,500,000	159,161	16,126,659
Total Assets	<u>\$ 11,198,302</u>	<u>\$ 2,534,119</u>	<u>\$ 52,255,938</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 2	\$ 181,896	\$ 1,355,258
Accrued Payroll and Related	-	-	1,207,149
Interfund Payable	6,000	24,831	6,158,922
Compensated Absences Payable	-	-	382,047
Deferred Revenue	67,337	43,033	5,394,077
Other Liabilities	-	-	4,727,292
Total Liabilities	<u>73,339</u>	<u>249,760</u>	<u>19,224,745</u>
<b>FUND BALANCES</b>			
Reserved:			
Noncurrent Notes Receivable	2,500,000	159,161	16,126,659
Debt Service	-	-	784,493
Unreserved:			
Designated for Subsequent Years Expenditures	-	-	-
Undesignated:			
General Fund	-	-	4,176,809
Debt Service Fund	-	-	(1,073,505)
HUD Programs	-	-	10,947
Other Grants	-	-	2,255,629
Capital Improvements	8,624,963	-	8,624,963
Other Governmental	-	2,125,198	2,125,198
Total Fund Balances	<u>11,124,963</u>	<u>2,284,359</u>	<u>33,031,193</u>
Total Liabilities and Fund Equity	<u>\$ 11,198,302</u>	<u>\$ 2,534,119</u>	<u>\$ 52,255,938</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2010**

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
<b>REVENUES</b>				
Taxes	\$ 38,662,532	\$ 4,740,515	\$ -	\$ -
Licenses and Permits	2,762,951	-	-	-
Intergovernmental	5,951,211	-	7,643,590	4,747,001
Charges for Services	443,899	-	-	-
Fines and Forfeits	1,421,604	-	-	-
Investment Income	28,322	5,071	83,400	179,140
Miscellaneous	315,586	2,200	63,106	1,900
Total Revenues	<u>49,586,105</u>	<u>4,747,786</u>	<u>7,790,096</u>	<u>4,928,041</u>
<b>EXPENDITURES</b>				
Current:				
General Government	7,916,476	-	-	2,000
Public Safety	34,967,149	-	636,035	784,078
Highways and Streets	7,890,108	-	1,193,600	1,133,069
Sanitation	-	-	-	487,770
Culture and Recreation	1,304,545	-	68,740	49,043
Economic and Community Development	51,054	-	5,610,996	3,228,192
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	5,606,021	-	-
Interest	-	2,570,295	-	-
Total Expenditures	<u>52,129,332</u>	<u>8,176,316</u>	<u>7,509,371</u>	<u>5,684,152</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,543,227)</u>	<u>(3,428,530)</u>	<u>280,725</u>	<u>(756,111)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,940,117	313,608	-	165,601
Operating Transfers (Out)	(146,592)	(2,099,524)	-	(34,369)
Total Other Financing Sources And (Uses)	<u>4,793,525</u>	<u>(1,785,916)</u>	<u>-</u>	<u>131,232</u>
Net Change in Fund Balance	2,250,298	(5,214,446)	280,725	(624,879)
Fund Balance, January 1, 2010	2,711,004	4,140,941	8,806,496	7,271,732
Fund Balance, December 31, 2010	<u>\$ 4,961,302</u>	<u>\$ (1,073,505)</u>	<u>\$ 9,087,221</u>	<u>\$ 6,646,853</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended December 31, 2010**

	<i>Capital Improvements Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ 43,403,047
Licenses and Permits	-	-	2,762,951
Intergovernmental	-	1,974,299	20,316,101
Charges for Services	-	-	443,899
Fines and Forfeits	-	-	1,421,604
Investment Income	997,251	24,696	1,317,880
Miscellaneous	115,831	21,358	519,981
Total Revenues	<u>1,113,082</u>	<u>2,020,353</u>	<u>70,185,463</u>
<b>EXPENDITURES</b>			
Current:			
General Government	-	-	7,918,476
Public Safety	6,927	-	36,394,189
Highways and Streets	4,000	2,316,945	12,537,722
Sanitation	-	-	487,770
Culture and Recreation	-	-	1,422,328
Economic and Community Development	28,783	130,667	9,049,692
Capital Outlay	141,524	24,169	165,693
Debt Service:			
Principal	-	-	5,606,021
Interest	-	-	2,570,295
Total Expenditures	<u>181,234</u>	<u>2,471,781</u>	<u>76,152,186</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>931,848</u>	<u>(451,428)</u>	<u>(5,966,723)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Operating Transfers In	2,050,000	146,592	7,615,918
Operating Transfers (Out)	-	(137,000)	(2,417,485)
Total Other Financing Sources And (Uses)	<u>2,050,000</u>	<u>9,592</u>	<u>5,198,433</u>
Net Change in Fund Balance	2,981,848	(441,836)	(768,290)
Fund Balance, January 1, 2010	8,143,115	2,726,195	33,799,483
Fund Balance, December 31, 2010	<u>\$ 11,124,963</u>	<u>\$ 2,284,359</u>	<u>\$ 33,031,193</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, 2010**

Net change in fund balances – total governmental funds \$ (768,290)

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. 1,445,239

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. 5,606,021

Net expenses reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (3,515,074)

Net revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 313,935

Net real estate and other 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. 2,160,880

The revenue and expenses of the internal service fund are reported with the governmental activities. (1,115,600)

Change in net assets of governmental activities \$ 4,127,111

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2010**

	<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	\$ 3,358,410	\$ -	\$ 1,632,911	\$ 702,298
Restricted Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Restricted Investments	-	-	-	-
Receivables (Net of Allowance for Uncollectibles):				
Accounts	1,324,308	-	939,094	-
Intergovernmental	223,336	-	-	-
Interfund	173,265	-	27,515	-
Other	77,912	-	-	-
Prepaid Items	4,662,400	-	-	-
Total Current Assets	<u>9,819,631</u>	<u>-</u>	<u>2,599,520</u>	<u>702,298</u>
Non-Current Assets:				
Capital Assets:				
Land	-	592,369	-	138,630
Buildings and Improvements	1,192,642	7,923,777	154,573	480,444
Improvements Other than Building	126,132	35,211,685	28,988	806,497
Equipment and Vehicles	5,952,691	4,123,328	5,194,097	637,883
Infrastructure	4,655,662	-	-	-
Less Accumulated Depreciation	(6,415,255)	(35,038,856)	(3,477,924)	(1,187,919)
Total Capital Assets, net	<u>5,511,872</u>	<u>12,812,303</u>	<u>1,899,734</u>	<u>875,535</u>
Unamortized Bond Costs	172,857	-	-	-
	63,125	-	38,126	11,155
Total Noncurrent Assets	<u>5,747,854</u>	<u>12,812,303</u>	<u>1,937,860</u>	<u>886,690</u>
Total Assets	<u>\$ 15,567,485</u>	<u>\$ 12,812,303</u>	<u>\$ 4,537,380</u>	<u>\$ 1,588,988</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 259,115	\$ -	\$ 45,906	\$ 495
Accrued Payroll and Related	96,874	-	27,027	2,408
Interfund Payable	8,825	-	42,789	1,017,565
Accrued Interest Payable	-	-	-	-
Compensated Absences Payable	14,071	-	3,405	477
Current Portion of Bonds Payable	553,700	-	-	-
Due to Other Governments	-	-	-	4,006
Total Current Liabilities	<u>932,585</u>	<u>-</u>	<u>119,127</u>	<u>1,024,951</u>
Noncurrent Liabilities:				
Accrued Interest Payable	4,553,003	-	-	-
Compensated Absences Payable	162,434	-	39,308	5,501
Claims and Judgments Payable	-	-	-	-
Deferred Revenue	194,217	8,656,350	-	-
General Obligation Bonds Payable	14,367,459	-	-	-
Total Noncurrent Liabilities	<u>19,277,113</u>	<u>8,656,350</u>	<u>39,308</u>	<u>5,501</u>
Total Liabilities	<u>20,209,698</u>	<u>8,656,350</u>	<u>158,435</u>	<u>1,030,452</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	(9,173,305)	12,812,303	1,937,860	886,690
Restricted	-	-	-	-
Unrestricted	4,531,092	(8,656,350)	2,441,085	(328,154)
Designated for Future Catastrophic Losses ( <i>Note B</i> )	-	-	-	-
Total Net Assets	<u>(4,642,213)</u>	<u>4,155,953</u>	<u>4,378,945</u>	<u>558,536</u>
Total Liabilities and Net Assets	<u>\$ 15,567,485</u>	<u>\$ 12,812,303</u>	<u>\$ 4,537,380</u>	<u>\$ 1,588,988</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**

**Statement of Net Assets (Continued)**

**Proprietary Funds**

**December 31, 2010**

	<u>Erie Sewer Authority</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 100,403	\$ 5,794,022	\$ 5,876,984
Restricted Cash and Cash Equivalents	23,900,584	23,900,584	1,000,000
Investments	3,782,099	3,782,099	-
Restricted Investments	1,301,806	1,301,806	-
Receivables (Net of Allowance for Uncollectibles):			
Accounts	128,094	2,391,496	-
Intergovernmental	-	223,336	-
Interfund	-	200,780	145,691
Other	95,700	173,612	8,738
Prepaid Items	-	4,662,400	-
Total Current Assets	<u>29,308,686</u>	<u>42,430,135</u>	<u>7,031,413</u>
Non-Current Assets:			
Capital Assets:			
Land	-	730,999	-
Buildings and Improvements	112,942,066	122,693,502	-
Improvements Other than Building	-	36,173,302	-
Equipment and Vehicles	21,781,094	37,689,093	-
Infrastructure	-	4,655,662	-
Less Accumulated Depreciation	<u>(75,721,732)</u>	<u>(121,841,686)</u>	-
Total Capital Assets, net	59,001,428	80,100,872	-
Unamortized Bond Costs	1,586,014	1,758,871	-
Net Pension Asset	-	112,406	-
Total Noncurrent Assets	<u>60,587,442</u>	<u>81,972,149</u>	<u>-</u>
Total Assets	<u>\$ 89,896,128</u>	<u>\$ 124,402,284</u>	<u>\$ 7,031,413</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 100,985	\$ 406,501	\$ 59,807
Accrued Payroll and Related	-	126,309	223,507
Interfund Payable	-	1,069,179	289,007
Accrued Interest Payable	206,114	206,114	-
Compensated Absences Payable	-	17,953	-
Current Portion of Bonds Payable	3,475,000	4,028,700	-
Due to Other Governments	-	4,006	-
Total Current Liabilities	<u>3,782,099</u>	<u>5,858,762</u>	<u>572,321</u>
Noncurrent Liabilities:			
Accrued Interest Payable	-	4,553,003	-
Compensated Absences Payable	-	207,243	-
Claims and Judgments Payable	-	-	1,474,635
Deferred Revenue	-	8,850,567	-
General Obligation Bonds Payable	59,109,939	73,477,398	-
Total Noncurrent Liabilities	<u>59,109,939</u>	<u>87,088,211</u>	<u>1,474,635</u>
Total Liabilities	<u>62,892,038</u>	<u>92,946,973</u>	<u>2,046,956</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	(2,687,037)	3,776,511	-
Restricted	29,590,724	29,590,724	1,000,000
Unrestricted	100,403	(1,911,924)	1,639,245
Designated for Future Catastrophic Losses (Note B)	-	-	2,345,212
Total Net Assets	<u>27,004,090</u>	<u>31,455,311</u>	<u>4,984,457</u>
Total Liabilities and Net Assets	<u>\$ 89,896,128</u>	<u>\$ 124,402,284</u>	<u>\$ 7,031,413</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
<b>OPERATING REVENUES</b>							
Intergovernmental Revenue	20,517,633	-	6,656,640	429,834	5,775,051	\$ 27,604,107	\$ 9,933,254
Charges for Services	-	3,095,955	-	-	-	3,095,955	-
Lease Rental	-	-	-	100,917	-	100,917	-
Rental Income	80,650	-	453,201	-	-	533,851	17,509
Miscellaneous	20,598,283	3,095,955	7,109,841	530,751	5,775,051	37,109,881	9,950,763
Total Operating Revenues							
<b>OPERATING EXPENSES</b>							
Personnel Services	3,844,252	-	1,488,623	231,504	-	5,564,379	-
Other Personnel Services	2,141,423	-	838,739	109,360	-	3,089,522	-
Services and Fees	2,289,447	-	1,741,703	30,736	30,896	4,092,782	50,009
Utilities	1,508,252	-	19,570	25,516	-	1,553,338	-
Rent	2,271	-	92	36,835	-	39,198	-
Insurance	397,855	-	26,226	5,700	-	429,781	9,505,525
Materials, Supplies, and Maintenance	952,825	-	374,427	67,639	-	1,394,891	-
Workers Compensation Claims and Other Claims	-	-	-	-	-	-	1,512,247
Depreciation and Amortization	286,675	554,755	220,280	77,933	4,519,890	5,659,533	-
Leases	5,800,378	-	-	-	-	5,800,378	-
Other Expenses	11,236	-	6,867	4,994	23,070	46,167	-
Total Operating Expenses	17,234,614	554,755	4,716,527	590,217	4,573,856	27,669,969	11,067,781
Operating Income (Loss)	3,363,669	2,541,200	2,393,314	(59,466)	1,201,195	9,439,912	(1,117,018)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Intergovernmental Revenue	281,484	-	101,973	4,000	2,688	390,145	-
Investment Earnings	8,168	-	4,005	2,294	444,380	458,847	1,418
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-	-
Other Income	-	-	-	-	275,851	275,851	-
Interest Expense	(1,049,129)	-	-	-	(2,461,722)	(3,510,851)	-
Total Nonoperating Revenues (Expenses)	(759,477)	-	105,978	6,294	(1,738,803)	(2,386,008)	1,418
Total Income (Loss) Before Transfers	2,604,192	2,541,200	2,499,292	(53,172)	(537,608)	7,053,904	(1,115,600)
Transfers In	133,333	-	-	-	-	133,333	-
Transfers (Out)	(1,313,610)	(2,884,825)	(1,133,331)	-	-	(5,331,766)	-
Change in Net Assets	1,423,915	(343,625)	1,365,961	(53,172)	(537,608)	1,855,471	(1,115,600)
Fund Equity, January 1, 2010	681,561	4,499,578	3,065,139	39,839	27,541,698	35,827,815	6,606,428
Prior Period Adjustment	(6,747,689)	-	(52,155)	571,869	-	(6,227,975)	(506,371)
Fund Equity, December 31, 2010	\$ (4,642,213)	\$ 4,155,953	\$ 4,378,945	\$ 558,536	\$ 27,004,090	\$ 31,455,311	\$ 4,984,457

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	<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	\$ 20,424,455	\$ 3,095,955	\$ 6,409,117	\$ 530,751	-	\$ 30,460,278	\$ -
Receipts from Interfund Services Provided	(188,459)	(211,130)	453,201	-	5,800,378	5,853,990	9,927,554
Payments to Suppliers	(3,163,042)	-	(2,105,347)	(93,233)	(9,163)	(5,370,785)	-
Payments to Employees	(6,412,736)	-	(2,440,141)	(353,187)	-	(9,206,064)	-
Payments for Other Operating Activities	(7,719,992)	-	(52,755)	(73,045)	-	(7,845,792)	(10,305,956)
Net Cash Provided (Used) by Operating Activities	2,940,226	2,884,825	2,264,075	11,286	5,791,215	13,891,627	(360,893)
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers (to) from Other Funds	(1,180,277)	(2,884,825)	(1,133,331)	-	-	(5,198,433)	-
Intergovernmental Revenue	281,484	-	101,973	4,000	-	387,457	-
Net Cash Provided (Used) by Noncapital Financing Activities	(898,793)	(2,884,825)	(1,031,358)	4,000	-	(4,810,976)	-
<b>Cash Flows From Capital and Related Financing Activities</b>							
Purchases of Capital Assets	(820,192)	-	(636,678)	-	-	(1,456,870)	-
Acquisition and Construction of Capital Assets	-	-	-	-	(934,949)	(934,949)	-
Net Proceeds from Capital Debt	-	-	-	-	15,440,614	15,440,614	-
Interest Paid on Capital Debt	(598,728)	-	-	-	(2,411,426)	(3,010,154)	-
Principal Paid on Capital Debt	(594,814)	-	-	-	(2,757,765)	(3,352,579)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,013,734)	-	(636,678)	-	9,336,474	6,686,062	-
<b>Cash Flows From Investing Activities</b>							
Proceeds from Sales and Maturities of Investments	-	-	-	-	-	-	-
Decrease in Restricted Investments	-	-	-	-	(1,499,854)	(1,499,854)	-
Interest and Dividends Received	8,168	-	4,005	2,294	351,368	365,835	1,418
Net Cash Provided (Used) by Investing Activities	8,168	-	4,005	2,294	(1,148,486)	(1,134,019)	1,418
Net Increase (Decrease) in Cash and Cash Equivalents	35,867	-	600,044	17,580	13,979,203	14,632,694	(359,475)
Cash and Cash Equivalents, January 1, 2010 (Including \$1,000,000 for the Internal Service Fund Reported in Restricted Accounts)	3,322,543	-	1,032,867	684,718	10,021,784	15,061,912	7,742,830
Cash and Cash Equivalents, December 31, 2010	\$ 3,358,410	\$ -	\$ 1,632,911	\$ 702,298	\$ 24,000,987	\$ 29,694,606	\$ 7,383,355

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	<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>
	\$ 3,363,669	\$ 2,541,200	\$ 2,393,314	\$ (59,466)	\$ 1,201,195	\$ 9,439,912	\$ (1,117,018)
	286,675	554,755	220,280	77,933	4,519,890	5,659,533	-
	(40,808)	-	(247,523)	-	(54,384)	(342,715)	-
	(50,809)	-	-	-	-	(50,809)	-
	(1,561)	-	-	-	-	(1,561)	170
	-	-	-	-	-	-	(5,700)
	2,200	-	-	-	-	2,200	-
	(22,065)	-	(21,531)	(4,731)	-	(48,327)	-
	79,230	-	10,702	(2,536)	124,514	211,910	(1)
	14,435	-	1,765	331	-	16,531	196,322
	-	-	81	5,700	-	5,781	-
	(441,496)	-	(93,013)	(7,923)	-	(542,432)	-
	-	-	-	1,978	-	1,978	-
	-	-	-	-	-	-	565,334
	(249,244)	(211,130)	-	-	-	(460,374)	-
	(423,443)	343,625	(129,239)	70,752	4,590,020	4,451,715	756,125
	\$ 2,940,226	\$ 2,884,825	\$ 2,264,075	\$ 11,286	\$ 5,791,215	\$ 13,891,627	\$ (360,893)

**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 in Accounts Receivable
Increase in Intergovernmental Receivables	(Increase) Decrease in Other Receivables
Increase in Interfund Receivables	Increase in Prepaid Items
Increase in Net Pension Asset	Increase (Decrease) in Accounts Payable
Increase in Accrued Payroll and Related	Increase in Interfund Payables
Increase in Compensated Absences Payable	Increase in Due to Other Governments
Increase in Claims and Judgments Payable	Increase in Deferred Revenue
Total Adjustments	

Net Cash Provided (Used) by Operating Activities

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Fiduciary Net Assets**  
**December 31, 2010**

	<i>Pension Trust Funds</i>	<i>Agency Funds</i>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 8,216,773	\$ 508,046
Investments, at Fair Value		
Common Stocks	122,812,252	-
United States Government and Agency Obligations	27,842,003	-
Corporate Obligations	27,229,132	-
Registered Investment Companies - Mutual Funds	27,597,958	-
Mortgage Backed Securities	3,378,440	-
Short-Term Investments	3,431,480	-
Accrued Investment Income	579,755	-
Total Assets	\$ 221,087,793	\$ 508,046
<b>LIABILITIES</b>		
Accounts Payable	\$ 32,386	\$ 192,984
Due to Other Governments	-	315,062
Total Liabilities	32,386	508,046
<b>NET ASSETS</b>		
Held in Trust for Employees' Pension Benefits	221,055,407	-
Total Liabilities and Net Assets	\$ 221,087,793	\$ 508,046

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended December 31, 2010**

	<i>Pension Trust Funds</i>
<b>ADDITIONS TO NET ASSETS</b>	
Contributions	
Employer	\$ 7,534,009
City of Erie Water Authority	355,502
Plan Members	4,765,210
Total Contributions	12,654,721
Investment Earnings	
Net Appreciation in Fair Value of Investments	21,855,191
Interest and Dividends	4,870,984
Other Investment Income	36,332
Less: Investment Expenses	(982,842)
Total Investment Earnings	25,779,665
Other Income	30,042
Total Additions To Net Assets	38,464,428
 <b>DEDUCTIONS FROM NET ASSETS</b>	
Benefits Paid	17,933,530
Participant Refunds	184,534
Administrative Expenses	214,014
Total Deductions From Net Assets	18,332,078
 Net Increase to Net Assets	20,132,350
 <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
Net Assets, January 1, 2010	200,923,057
Net Assets, December 31, 2010	\$ 221,055,407

**CITY OF ERIE, PENNSYLVANIA**

**Statement of Net Assets**

**Component Units**

**December 31, 2010**

	<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	\$ 10,381	\$ 891,446	\$ 1,986,950	\$ 2,888,777
Investments	-	298,255	-	298,255
Receivables (net of allowance for uncollectibles)	40,392	3,856,424	596,650	4,493,466
Inventories	-	250,553	-	250,553
Prepaid	-	395,747	121,917	517,664
Restricted Assets:				
Cash and Cash Equivalents	79,380	1,870,049	1,580,401	3,529,830
Investments	-	1,682,970	4,798,378	6,481,348
Capital Assets:				
Non-depreciable	-	-	1,887,859	1,887,859
Depreciable (Net)	4,180,278	21,203,504	28,506,928	53,890,710
Bond Issue Costs (Net)	-	-	1,372,646	1,372,646
Long-Term Receivable	9,112	-	581,773	590,885
Net Pension Benefit Asset	-	478,269	-	478,269
Total Assets	<u>\$ 4,319,543</u>	<u>\$ 30,927,217</u>	<u>\$ 41,433,502</u>	<u>\$ 76,680,262</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 164,121	\$ 2,303,850	\$ 171,283	\$ 2,639,254
Accrued Liabilities	15,733	1,290,235	61,222	1,367,190
Accrued Interest Payable	-	-	526,678	526,678
Other Current Liabilities	-	909,363	-	909,363
Non-Current Liabilities				
Due Within One Year				
Bonds, Notes and Leases Payable	1,833,701	-	910,000	2,743,701
Due In More Than One Year				
Bonds, Notes and Leases Payable	250,068	-	33,470,510	33,720,578
Net OPEB Obligation	-	1,316,808	-	1,316,808
Total Liabilities	<u>2,263,623</u>	<u>5,820,256</u>	<u>35,139,693</u>	<u>43,223,572</u>
<b>NET ASSETS</b>				
Invested in Capital Assets (net of related debt)	3,926,026	21,203,504	1,430,176	26,559,706
Restricted for:				
Other	-	3,553,019	3,894,322	7,447,341
Unrestricted:				
Undesignated	(1,870,106)	350,438	969,311	(550,357)
Total Net Assets	<u>2,055,920</u>	<u>25,106,961</u>	<u>6,293,809</u>	<u>33,456,690</u>
Total Liabilities and Net Assets	<u>\$ 4,319,543</u>	<u>\$ 30,927,217</u>	<u>\$ 41,433,502</u>	<u>\$ 76,680,262</u>



**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Component Units**  
**For the Year Ended December 31, 2010**

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
<b>Cash Flows From Operating Activities</b>			
Receipts from Customers and Users	\$ -	\$ 5,305,582	\$ 5,305,582
Receipts from Services Provided	5,249,558	-	5,249,558
Payments to Suppliers	(3,448,539)	(1,749,322)	(5,197,861)
Payments to Employees	(8,448,074)	(968,650)	(9,416,724)
Payments for Employee Benefits and Taxes	(3,236,941)	-	(3,236,941)
Net Cash Provided (Used) by Operating Activities	<u>(9,883,996)</u>	<u>2,587,610</u>	<u>(7,296,386)</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Cash Receipts from Operating Grants	8,694,403	-	8,694,403
Net Cash Provided by Noncapital Financing Activities	<u>8,694,403</u>	<u>-</u>	<u>8,694,403</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition and Construction of Capital Assets	(3,040,810)	(2,158,091)	(5,198,901)
Net Proceeds from Capital Debt	-	18,411,407	18,411,407
Payment to Escrow Account for Advance Refunding of Capital Debt	-	(12,913,689)	(12,913,689)
Net Payments on Line of Credit	-	(11,075)	(11,075)
Payments on Long-Term Receivable	-	24,454	24,454
Interest Paid on Capital Debt	-	(1,317,779)	(1,317,779)
Principal Paid on Capital Debt	-	(1,020,000)	(1,020,000)
Capital Grant Receipts	1,761,488	-	1,761,488
Proceeds from Sales of Capital Assets	7,181	239,981	247,162
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,272,141)</u>	<u>1,255,208</u>	<u>(16,933)</u>
<b>Cash Flows From Investing Activities</b>			
Net Purchase of Investments	282,088	(2,843,321)	(2,561,233)
Interest and Dividends Received	26,514	151,263	177,777
Net Cash Provided (Used) by Investing Activities	<u>308,602</u>	<u>(2,692,058)</u>	<u>(2,383,456)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,153,132)	1,150,760	(1,002,372)
Cash and Cash Equivalents, January 1, 2010	<u>4,914,627</u>	<u>2,416,591</u>	<u>7,331,218</u>
Cash and Cash Equivalents, December 31, 2010	<u>\$ 2,761,495</u>	<u>\$ 3,567,351</u>	<u>\$ 6,328,846</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Component Units**  
**For the Year Ended December 31, 2010**

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
<b>Reconciliation of Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating Profit (Loss)	\$ (13,187,493)	\$ 1,258,159	\$ (11,929,334)
Adjustments to Reconcile Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	2,651,777	1,293,374	3,945,151
Amortization Expense	-	32,835	32,835
Increase in Net Pension Benefit Asset	(21,219)	-	(21,219)
Increase in Liability for Retiree Health Insurance	473,808	-	473,808
Decrease in Accounts Receivable	22,728	7,267	29,995
Increase in Operating Grants Receivable	(1,109,322)	-	(1,109,322)
Increase in Inventories	(2,322)	-	(2,322)
Increase in Prepaid Items	(25,381)	(7,898)	(33,279)
Increase in Accounts Payable	1,287,094	3,858	1,290,952
Increase in Accrued Payroll and Related	47,245	15	47,260
Increase in Other Accrued Items	13,748	-	13,748
Decrease in Operating Government Advances	(46,640)	-	(46,640)
Increase in Unredeemed Tokens, etc.	11,981	-	11,981
Total Adjustments	<u>3,303,497</u>	<u>1,329,451</u>	<u>4,632,948</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,883,996)</u>	<u>\$ 2,587,610</u>	<u>\$ (7,296,386)</u>

# CITY OF ERIE, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2010

## 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
Blended Component Units:	Erie Sewer Authority
Discretely Presented Component Units:	Redevelopment Authority of the City of Erie Erie Metropolitan Transit Authority Erie Parking Authority

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

### *Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. Currently, the following entity has been included as a blended component unit:

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

Erie Sewer Authority - This is a financing authority created to acquire property and equipment for a sewage treatment plant. The City is contingently liable for the debt of the authority under an agreement. In 2002 and prior years, the City entered into Guaranty Agreements whereby the City will guarantee payment of principal and interest on the 2001 series of bonds and on notes financed with Pennsylvania Infrastructure Investment Authority (Pennvest). This component unit has been included as a 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 A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Administrative Offices:

Erie Redevelopment Authority  
126 West 9th Street  
Erie, Pennsylvania 16501  
December 31, 2010  
Unqualified opinion dated September 2, 2011

Erie Parking Authority  
25 East 10th Street  
Erie, Pennsylvania 16501  
December 31, 2010  
Unqualified opinion dated March 7, 2011

Erie Metropolitan Transit Authority  
127 East 14th Street  
Erie, Pennsylvania 16503  
June 30, 2010  
Unqualified opinion dated September 23, 2010

Erie Sewer Authority  
120 West 10<sup>th</sup> Street  
Erie, Pennsylvania 16501  
December 31, 2010  
Unqualified opinion dated March 8, 2011

### Related Organizations

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

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

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

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

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

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

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

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

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

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

The statement of net assets and the statement of activities display information about the City for all non-fiduciary activities of the primary government and its non-fiduciary component units. 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 A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Other Grant Funds – Federal, state and locally funded projects for the 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 sewer 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 and 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 A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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

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

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.

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.

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

*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.

*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.

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

*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* – Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it. The City's policy does not specifically address 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. The remaining funds subject to custodial credit risk were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the City's name. 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.	\$ 2,500,000	\$ 2,500,000
2. Collateralized with securities held by the pledging financial institutions' trust department or agent in the City's name.	<u>45,575,092</u>	<u>41,317,689</u>
Total	<u>\$ 48,075,092</u>	<u>\$ 43,817,689</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 balanced asset class mix to minimize portfolio risk.

The deposits and investments held at December 31, 2010 are as follows:

<u>Type</u>	<u>Fair Value</u>
Total Deposits	\$ 48,075,092
Investments	
Fixed Income (level 2)	7,686,532
Equities (level 1)	5,055,661
Selectinvest ARV L.P (level 3)	<u>194,332</u>
Total Investments	<u>12,936,525</u>
Total Deposits and Investments	<u>\$ 61,011,617</u>
Reconciliation to Statement of Net Assets	
Cash and Cash Equivalents	\$ 23,174,508
Restricted Cash and Cash Equivalents	24,900,584
Investments	11,634,719
Restricted Investments	<u>1,301,806</u>
	<u>\$ 61,011,617</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.

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

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

*Fair Value Measurement* –FASB Codification No. 820, Fair Value Measurements and Disclosures 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 FASB Codification No. 820, 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 FASB Codification No. 820 is required for fiscal years beginning after November 15, 2007. FASB Codification No. 820 was adopted as of January 1, 2008 by the City.

Various inputs are used in determining the fair value of the City’s investment in Selectinvest ARV L.P. (“Limited Partnership”) relating to FASB Codification No. 820. 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. 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 fund’s 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 FASB Codification No. 820, price transparency, valuation procedures in place, subscription and redemption activity and level of illiquid restrictions. The General Partner considers such information and considers 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.

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, 2010:

	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Balance as of December 31, 2010</i>
Investments in funds: (At fair value)	\$ 194,332	\$ 194,332

At December 31, 2010, 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.

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

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, 2010:

Level 3						
	<i>Beginning Balance January 1, 2010</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, 2010</i>	<i>Change in Unrealized Gains (losses) for Investments December 31, 2010</i>
Investments in Investment Funds	\$ 269,314	\$ 8,452	\$ -	\$ (83,434)	\$ 194,332	\$ 8,452

The following table represents the City's investment in the Limited Partnership - Selectinvest ARV, as of December 31, 2010:

Beginning Value of Capital Account: (As of December 31, 2009)	\$ 269,314
Capital Additions:	(83,434)
Net Income/Loss:	8,452
Ending Value of Capital Account: (As of December 31, 2010)	<u>\$ 194,332</u>

*Accounts Receivable* - Accounts receivable represents the balance due to the City's Sewer Revenue and Refuse and Recycling Funds as of December 31, 2010 for services provided through December 31, 2010, net of an allowance for uncollectible accounts.

	<i>Sewer Revenue Fund</i>	<i>Refuse and Recycling Fund</i>	<i>Sewer Authority</i>	<i>Total</i>
Gross Accounts Receivable	1,479,308	1,419,094	128,094	3,026,496
Less: Allowance for Doubtful Accounts	(155,000)	(480,000)	-	(635,000)
Accounts Receivable, net	<u>1,324,308</u>	<u>939,094</u>	<u>128,094</u>	<u>2,391,496</u>

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

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 \$28,864,600 on January 1, 2010 based on a gross assessed valuation of \$2,520,926,022 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, 2010. Current real estate taxes receivable at December 31, 2010 consists of the face value of the tax levy uncollected at December 31, 2010.

The receivable for outstanding delinquent tax levied at December 31, 2010 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, 2010. 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, 2010.

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 2010	\$ 5,030,572
Cost Charged by the County for Collection of the Above	(251,529)
Total Property Tax Receivable	<u>4,779,043</u>
Allowance for Doubtful Accounts	(582,292)
Subsequent Receipts Received	(353,363)
Total Lien Receivable	101,027
Other Deferred Revenue	233,970
Total Deferred Revenue	<u><u>\$ 4,178,385</u></u>

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

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

*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, 2010 taxes collected by the tax collector in January and February 2011 as follows:

Estimated Share of December 31, 2010 Cash Balance	\$ -
Estimated Share of January and February 2011 Cash Receipts	1,379,035
Total Receivable	<u><u>\$ 1,379,035</u></u>

*Notes Receivable* - The City has made various loans to certain Erie businesses through the Bayfront Urban Development Action Grant, Community Development Block Grant, Enterprise Zone Loan Grant and the 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 2010, payments made to the City totaled \$838,514 representing \$565,862 of principal and \$272,652 of interest. The detailed activity is as follows:

Balance Outstanding at December 31, 2009	\$ 15,042,096
2010 Loans	602,414
2010 Write Offs	(1,022,523)
2010 Accrued Interest on Loans	120,892
Principal Repayments	(565,862)
Balance Outstanding at December 31, 2010	<u><u>\$ 14,177,017</u></u>

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

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

Based on the estimated market value of the properties lienied 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 Lien Receivables	\$ 185,150	\$ 891,767	\$ 81,158
Less: Provision for Uncollectible Receivables	(84,123)	(679,579)	(38,124)
Net Lien Receivables	<u><u>\$ 101,027</u></u>	<u><u>\$ 212,188</u></u>	<u><u>\$ 43,034</u></u>

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

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 Improvements Fund and Enterprise Fund at December 31, 2010 is \$3,898,226; \$915,547; \$67,337 and \$8,850,567, 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 \$2,500,000 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.

Future minimum lease payments are presented below.

2011	\$ 3,014,643
2012	3,150,301
2013	3,292,065
2014	3,440,208
2015 and thereafter	151,195,017
Total Future Lease Payments	<u>\$ 164,092,234</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 \$4,662,400 at December 31, 2010.

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

*Capital Assets*

Capital asset activity for primary government – governmental activities for the year ended December 31, 2010 was as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance (Restated)</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$ 13,997,450	\$ -	\$ -	\$ 13,997,450
Depreciable Assets:				
Buildings and improvements	9,568,311	24,870	-	9,593,181
Improvements other than building	2,585,519	-	-	2,585,519
Equipment and vehicles	25,353,034	406,454	-	25,759,488
Infrastructure	35,234,382	3,991,377	-	39,225,759
Totals at historical cost	<u>86,738,696</u>	<u>4,422,701</u>	-	<u>91,161,397</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,427,799)	(162,359)	-	(6,590,158)
Improvements other than building	(1,455,234)	(89,102)	-	(1,544,336)
Equipment and vehicles	(19,160,535)	(1,182,023)	-	(20,342,558)
Infrastructure	(17,587,406)	(1,543,979)	-	(19,131,385)
Total accumulated depreciation	<u>(44,630,974)</u>	<u>(2,977,463)</u>	-	<u>(47,608,437)</u>
Governmental activities capital assets, net	<u>\$ 42,107,722</u>	<u>\$ 1,445,238</u>	<u>\$ -</u>	<u>\$ 43,552,960</u>

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

Capital asset activity for primary government – business-type activities for the year ended December 31, 2010 was as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance (Restated)</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$ 730,999	\$ -	\$ -	\$ 730,999
Depreciable Assets:				
Buildings and improvements	121,466,713	1,226,789	-	122,693,502
Improvements other than building	36,173,302	-	-	36,173,302
Equipment and vehicles	36,888,776	800,317	-	37,689,093
Infrastructure	3,999,109	656,553	-	4,655,662
Totals at historical cost	<u>199,258,899</u>	<u>2,683,659</u>	-	<u>201,942,558</u>
Less accumulated depreciation for:				
Buildings and improvements	(78,664,009)	(4,505,658)	-	(83,169,667)
Improvements other than building	(24,689,598)	(482,792)	-	(25,172,390)
Equipment and vehicles	(11,965,012)	(400,662)	-	(12,365,674)
Infrastructure	(1,037,765)	(96,190)	-	(1,133,955)
Total accumulated depreciation	<u>(116,356,384)</u>	<u>(5,485,302)</u>	-	<u>(121,841,686)</u>
Business-type activities capital assets, net	<u>\$ 82,902,515</u>	<u>\$ (2,801,643)</u>	<u>\$ -</u>	<u>\$ 80,100,872</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 1,937,026
Public safety	571,006
Highways and streets	412,187
Economic and community development	57,244
Total depreciation expense - governmental activities	<u>\$ 2,977,463</u>
Business-type activities:	
Sewer	\$ 4,632,334
Refuse	220,280
Golf	77,933
Water	554,755
Total depreciation expense - business-type activities	<u>\$ 5,485,302</u>

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

**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, as amended, 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.

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, 2009 (date of latest actuarial valuation), employee membership data is as follows, including Erie City Water Authority employees:

	<u>2009</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>405</u>
Active participants, vested and non-vested	<u>387</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.

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

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.

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 \$71,978,878 at December 31, 2010. 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% (\$3,598,900 for 2010) or more of net assets available for benefits, only include investments insured by the United States Government.

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

Funding Status and Progress of Plan

Presented below is the “actuarial accrued liability” of the Fund as determined in the Fund’s January 1, 2009 actuarial valuation. The standard measurement is the actuarial present value of total projected benefits. This standard measurement reflects the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Total projected benefits include all benefits estimated to be payable to plan members as a result of their service through the valuation date and their expected future service.

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

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

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

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

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

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

	<u>January 1,</u> <u>2009</u>
Present value of benefits at attained age	
Active participants	\$ 63,787,828
Inactive participants	2,570,065
Retirees and beneficiaries receiving benefits	<u>37,626,101</u>
Total present value of projected benefits	103,983,994
Actuarial present value of future normal costs	<u>15,226,843</u>
Actuarial accrued liability	88,757,151
Actuarial value of assets at fair value	<u>70,560,169</u>
Unfunded actuarial accrued liability	<u>\$ 18,196,982</u>

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

Employee contributions at January 1, 2009 consist of:

All active participants	<u>2009</u> <u>\$ 13,511,356</u>
-------------------------	-------------------------------------

Except as described on the next page, no changes in actuarial assumptions or benefit provisions that would significantly affect the valuations of the pension benefit obligation occurred during 2009.

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. Prior to January 1, 2009, the funding requirements of Act 205 required that the plan amortize past services cost as follows: (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. Beginning with the January 1, 2009 Actuarial Valuation, Act 44 of 2009 modified amortization periods of past service costs as follows: (a) Assumption changes - 15 years; (b) Investment experience - 20 years; (c) Mandated benefit changes - 20 years; (d) Non-mandated active benefit changes - 10 years and (e) Non-mandated retiree benefit changes – end of next plan year. 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.

For the years ended December 31, 2010 and 2009, 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>2010</u>	<u>Covered Payroll %</u>	<u>2009</u>	<u>Covered Payroll %</u>
Annual participating payroll based on prior year W-2 earnings	<u>\$ 16,115,917</u>		<u>\$ 16,115,917</u>	
Contributions - Year ended December 31,				
Employers' contributions	\$ 2,231,790	13.80%	\$ 2,234,481	13.90%
Employee contributions	<u>1,046,412</u>	<u>6.50%</u>	<u>1,082,893</u>	<u>6.70%</u>
	<u>\$ 3,278,202</u>	<u>20.30%</u>	<u>\$ 3,317,374</u>	<u>20.60%</u>

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

The following specific information was used in the actuarial valuation dated January 1, 2009:

Actuarial cost method	Entry age normal
Unfunded actuarial liability amortization method	Level dollar amount, closed
Remaining amortization period	25 years
Asset valuation method- January 01, 2007	5-year, Smoothed market value
Asset valuation method- January 01, 2009	Asset adjustment technique described in Act 44 of 2009
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.

As of January 1, 2009 (date of latest actuarial valuation), employee membership data is as follows:

	<u>2009</u>
Retirees, and beneficiaries, including widows, court-ordered, and guardians currently receiving benefits	268
Current employees including fully and partially vested, and non-vested	161
Terminated employees - vested, but not currently receiving benefits	<u>5</u>
Total	<u><u>434</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.

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

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, plus \$1 per month. 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, as amended, of the Commonwealth of Pennsylvania.

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 \$63,163,156 at December 31, 2010, 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.

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

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:

<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
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%
2001	144,796	100.0%
2002	-	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%
2009	2,870,932	100.0%
2010	2,885,521	100.0%

*Firemen's' Pension Fund*

Plan Description

Ordinance 15-1962 established the Plan for all full-time firefighters of the City of Erie. Fund assets are retained by the City of Erie Aggregate Pension Fund as part of an aggregation of municipal pension assets pursuant to Section 607 (b) of Act 205, as amended, 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, 2009 (date of latest actuarial valuation), employee membership data is as follows:

Retirees and beneficiaries currently receiving benefits	233
Terminagted participants with vested benefits	1
Active employees, including fully vested, partially vested and non-	134
Total	<u>368</u>

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

A member may retire upon completing twenty years of service and having attained age fifty unless the member entered the service of the fire department before December 22, 1965, in which case the member may retire without regard to age.

The retirement allowance, payable monthly for life, without regard for service increments, is the higher of one-half the member's annual salary at date of retirement or one-half the highest average annual salary received during any five years of service preceding retirement. Service increments, earned for each year of service in excess of twenty, increase the monthly benefit by one fortieth for each year to a maximum of \$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).

### 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 generally accepted accounting standards, 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 \$49,551,273 at December 31, 2010. 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.

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

The summary of the Fund's unfunded actuarial accrued liability as of its latest actuarial valuation date, January 1, 2009 (the date of the latest actuarial valuation) is as follows:

Present Value of Benefits at Attained Age-	
Active Participants	\$ 34,273,025
Retirees and Beneficiaries Receiving Benefits	54,981,008
Other	269,127
Total Present Value of Projected Benefits	<u>89,523,160</u>
Actuarial Present Value of Future Normal Costs	<u>10,805,335</u>
Actuarial Accrued Liability	78,717,825
Actuarial Value of Assets (Fair market value at 12/31/08 \$43,051,010)	<u>56,028,150</u>
Unfunded Actuarial Accrued Liability	<u><u>\$ 22,689,675</u></u>

At December 31, 2010, there were no investments which exceeded 5% of net assets available for benefits.

Funding Status and Progress of Plan

Total payroll and covered payroll for the year ended December 31, 2010 was \$9,186,512 and \$8,416,633, respectively. In 2010, net contributions made totaled \$3,176,285, as follows:

	<u>Amount</u>	<u>Covered Payroll %</u>
Municipal Contribution - City of Erie, PA - MMO	\$ 2,669,197	31.71%
Active Member Contributions	506,484	6.02%
Other Member Contributions	604	0.01%
	<u><u>\$ 3,176,285</u></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's 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 2010 were \$2,680,096.

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.

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

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 \$27,597,958 at December 31, 2010. 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 417 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.

### *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 \$150,000 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, 2010 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 2010, the combined medical and indemnity retention was \$650,000 per occurrence for Police and Fire and \$500,000 per occurrence for all other City employees. A similar retention structure has been in place since 2006. The retention amounts are specifically negotiated on an annual basis.

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

Unpaid Claims Liabilities - Workers' Compensation - The following represents the changes in approximate aggregate liabilities for the City from January 1, 2010 to December 31, 2010:

	<u>2010</u>
Accrued Worker's Compensation, January 1	\$ 855,672
Current Year Claims	177,267
Claim Payments	(118,304)
Accrued Worker's Compensation, December 31	<u>\$ 914,635</u>

*Judgments Payable* - Judgments payable represent amounts of cases against the City which the City solicitor has indicated will probably result in a liability to the City. The claims payable in the Internal Service Fund represents the open reserves for workers' compensation claims. The City is also involved in various other litigation claims related to property damage, personal injury, civil rights and other matters, which the City is vigorously defending. The individual cases range from \$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 \$560,000. 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 was in the amount of \$6,290,000, which included 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.

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

The minimum annual lease payments required for the next five years as of December 31, 2010 are as follows:

2011	\$	6,479,506
2012		6,483,543
2013		6,478,661
2014		6,481,253
2015		6,620,042
	\$	<u>32,543,005</u>

The lease rental payment for 2010 was \$5,725,050.

Other Lease Agreements - The City has historically entered into various capital lease agreements to purchase equipment. The City had one capital lease agreement during the year ended December 31, 2010.

The remaining lease payments as of December 31, 2010 are as follows:

	2011	\$	127,322
	2012		127,322
	2013		127,322
Minimum Lease Obligation		\$	<u>381,966</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.

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

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, 2010 is \$34,333,631. Outstanding principal, including compounded accreted value, of the 1998B Bonds in the amount of \$9,613,417 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 \$24,720,214 of the 1998B Bonds is included in the Governmental Activities section of the Statement of Net Assets.

On February 21, 2001, the City issued \$28,698,631 principal amount of Taxable General Obligation Bonds, Series of 2001A, (the "2001A Bonds"), the Tax-Exempt General Obligation Bonds, Series of 2001B (the "2001B Bonds") and the Tax-Exempt General Obligation Bonds, Series of 2001C, (the "2001C Bonds"). The 2001A Bonds, in the principal amount of \$5,115,000, were issued for the purpose of refunding the taxable General Obligation Note, Series of 2000 and paying the costs of issuing the 2001A Bonds. The 2001B Bonds in the principal amount of \$8,995,000 were issued for the purpose of refunding the \$2,500,000 Note issued September 15, 1999, refunding the \$500,000 Note issued June 30, 2000 and refunding certain of the City's general obligation bonds and paying the costs of issuing the 2001B Bonds. The 2001C Bonds in the principal amount of \$14,588,631 were issued for the purpose funding capital projects and paying the costs of issuing the 2001C Bonds. The 2001A Bonds, the 2001B Bonds and the 2001C Bonds maturing on November 15, 2002 through and including November 15, 2008 were issued as current interest bonds and will bear interest at varying rates from 3.30% to 6.625% from January 15, 2001. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 2001. The 2001 A Bond Series was paid off in 2008. 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 2001B and 2001C bonds at December 31, 2010 is \$4,630,000, and \$13,141,504, respectively. Outstanding principal, including compounded accreted value, of the 2001B Bonds in the amount of \$833,400 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 \$3,796,600 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,

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

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, including compounded accreted value, of the 2001D, 2001E and 2001F bonds at December 31, 2010 is \$8,420,000, \$13,485,000; and \$11,050,000, respectively. Outstanding principal, including compounded accreted value, of the 2001E and F Bonds in the amount of \$5,933,400 and \$3,094,000, respectively, 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 \$7,551,600 and \$7,956,000 of the 2001E and F Bonds, respectively, are 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, including compounded accreted value, of the 2004A and 2004B bonds at December 31, 2010 is \$6,685,000, and \$1,000,000, respectively. Outstanding principal, including compounded accreted value, of the 2004A and B Bonds in the amount of \$7,685,000 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, 2010, are as follows:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>
2011	\$ 8,587,749	\$ 6,992,481
2012	8,584,569	7,001,749
2013	7,266,380	8,311,343
2014	6,997,088	8,458,190
2015-17	21,417,156	25,354,191
2018-21	26,234,779	32,306,531
2022-25	22,969,925	30,553,316
2026-29	6,116,804	9,785,119
Total principal and interest	<u>108,174,450</u>	<u>128,762,920</u>
Less: Interest, other than accreted interest	<u>9,731,279</u>	<u>24,092,375</u>
Total Outstanding Liability	98,443,171	104,670,545
Less: Accreted interest	<u>24,373,481</u>	<u>22,405,330</u>
Total General Obligation Bonds	<u>\$ 74,069,690</u>	<u>\$ 82,265,215</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, 2010, the amount of defeased debt outstanding and removed from the Statement of Net Assets amounted to \$24,230,000.

Long-term liability activity for the year ended December 31, 2010 is 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	\$ 104,094,053	\$ -	\$ (6,032,847)	\$ 98,061,206	\$ 6,486,300
Leases payable	25,150	381,966	(25,150)	381,966	127,322
	104,119,203	381,966	(6,057,997)	98,443,172	6,613,622
Less bond discount and deferred amount on refunds	(26,289,853)	-	1,916,371	(24,373,482)	-
Total bonds, loans and leases payable	77,829,350	381,966	(4,141,626)	74,069,690	6,613,622
Other liabilities:					
Compensated absences	4,606,458	528,685	(342,864)	4,792,279	382,047
Total other liabilities	4,606,458	528,685	(342,864)	4,792,279	382,047
Governmental activities long-term liabilities	\$ 82,435,808	\$ 910,651	\$ (4,484,490)	\$ 78,861,969	\$ 6,995,669
<b>Business-Type Activities</b>					
Bonds and loans payable:					
General obligation bonds	\$ 76,033,465	\$ 15,695,000	\$ (3,335,369)	\$ 88,393,096	\$ 4,028,700
	76,033,465	15,695,000	(3,335,369)	88,393,096	4,028,700
Less bond discount and deferred amount on refunds	(6,746,027)	-	618,146	(6,127,881)	-
Total bonds and loans payable	69,287,438	15,695,000	(2,717,223)	82,265,215	4,028,700
Compensated absences	767,628	-	(542,432)	225,196	17,953
Business-type activities long-term liabilities	\$ 70,055,066	\$ 15,695,000	\$ (3,259,655)	\$ 82,490,411	\$ 4,046,653
<b>Component Unit:</b>					
Bonds and loans payable:					
General obligation bonds	\$ 29,964,300	\$ 19,611,229	\$ (14,387,268)	\$ 35,188,261	\$ 914,184
Long-term loans	2,514,541	-	(11,075)	2,503,466	1,829,517
	32,478,841	19,611,229	(14,398,343)	37,691,727	2,743,701
Less bond discount and deferred amount on refunds	(915,363)	(891,348)	579,263	(1,227,448)	-
Total bonds and loans payable	31,563,478	18,719,881	(13,819,080)	36,464,279	2,743,701
Compensated absences	-	-	-	-	-
Component Unit long-term liabilities	\$ 31,563,478	\$ 18,719,881	\$ (13,819,080)	\$ 36,464,279	\$ 2,743,701

*Compensated Absences* - Vested or accumulated vacation leave and sick pay that is expected to be liquidated with expendable available financial resources is reported as an 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 \$400,000 which represents a decrease of \$35,000 from the prior year, and is recorded out in the appropriate funds as a current and/or non-current liability.

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.

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

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 2010, the City paid \$1,248,516 to 79 former police officers, \$831,972 to 61 former firefighters, and \$2,726 to other former employees. The difference between the amount the City paid and the amount projected in the actuarial report results in a net increase for the year of \$834,917. The City implemented GASB 45 in 2008 and has recognized the net obligation since that date in accordance with the standard. Net OPEB obligation at December 31, 2010 is \$1,841,960. 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)**

	<i>Ununiformed</i>	<i>Police</i>	<i>Fire</i>	<i>Totals</i>
Annual Required Contribution	\$ 7,376	\$ 1,381,356	\$ 1,529,399	\$ 2,918,131
Actual Amount Paid	2,726	1,248,516	831,972	2,083,214
Difference:	(4,650)	(132,840)	(697,427)	(834,917)
Total Unfunded Actuarial Accrued Liability (As of December 31, 2009)	12,166	8,521,271	9,580,842	18,114,279
Unfunded Actuarial Accrued Liability additions from current year. (As of December 31, 2010)	(4,650)	(132,840)	(697,427)	(834,917)
Total Unfunded Actuarial Accrued Liability (As of December 31, 2010)	<u>\$ 16,816</u>	<u>\$ 8,654,111</u>	<u>\$ 10,278,269</u>	<u>\$ 18,949,196</u>

**Fund Equity**

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

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

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.

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 and are not expected to be paid in the next year.

Interfund balances at December 31, 2010 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	3,711,622
Capital Improvements	6,000	-
Sewer	8,825	173,265
Refuse	42,789	27,515
Special Revenue	161,421	-
Debt Service Fund:		
General	3,711,622	1,965,473
Capital Improvements	24,831	35,913
Golf	172,618	-
Sewer Revenue Fund:		
General	173,265	8,825
Refuse Fund:		
General	27,515	42,789
Golf Fund:		
General	-	699,177
Internal Service	-	145,692
Debt Service	-	172,618
Capital Improvements Fund:		
Debt Service	35,913	24,831
General	-	6,000
Special Revenue	7,398	-
Internal Service Fund:		
General	45,482	334,489
Golf	145,692	-
Special Revenue Fund:		
General Fund	-	161,421
Capital Improvements	-	7,398
	<u>\$ 7,562,510</u>	<u>\$ 7,562,510</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, 2010 are \$18,764,479.

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, 2010 are \$12,870,000.

During 2010, 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, 2010 are \$0.

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, 2010 are \$6,205,000.

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, 2010 are \$4,825,000.

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

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, 2010 are \$4,534,010.

The Erie Sewer Authority's Revenue Bonds, Series of 2009 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, 2010 are \$13,225,000.

### **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.

*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, 2010 was \$1,607,241.

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

### **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**

#### *Fixed Assets (Government Wide, Sewer Fund, Refuse and Recycling Fund, Golf Fund)*

At December 31, 2009, the governmental fixed assets were overstated by \$9,576,536 and the business-type fixed assets were also overstated by \$9,029,617. The restatement has the effect of decreasing beginning fund balance by a total of \$18,606,153 for the total Primary Government in the current year.

#### *Internal Service*

At December 31, 2009, the claims and judgments payable were understated by \$506,371. The restatement has the effect of increasing beginning fund balance by a total of \$506,371 for the Internal Service Fund in the current year.

### **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.

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

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.

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.

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

**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.

*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, 2010, the carrying amount of the Authority's deposits was \$89,761 and the bank balance was \$183,585 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, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Real Property	<u>\$ 4,175,332</u>	<u>\$ 255,332</u>	<u>\$ 246,683</u>	<u>\$ 4,183,981</u>

Note: Ending balance does not include accumulated depreciation of \$3,703

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

*Long-term Debt* - 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, 2010, the outstanding balance was \$180,000.

During September of 2003, the Authority borrowed \$233,600 from a local bank for the purchase of four properties along West 5<sup>th</sup> Street. The term of this loan is for 15 years and requires 180 monthly payments of \$1,887, which includes interest at 5.25%. The interest rate is fixed for three years at which time it will adjust to a new rate as described in the loan agreement. The properties serve as collateral for this loan. As of December 31, 2010, there was no outstanding balance for this loan.

The third 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, 2010, there was no outstanding balance for this loan.

The fourth 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, 2010, the outstanding balance was \$74,252.

*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, 2009, were calculated using the total compensation of eligible participants in the amount of \$343,420. Both the Authority and the covered employees made the required contributions, amounting to \$26,092 from the Authority and \$45,892 from the covered employees.

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

*Transactions with the Primary Government* - During 2009, the Redevelopment Authority received \$1,648,631 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.

In May 2010, Erie City Council voted to approve an ordinance releasing \$137,000 in federal urban Development Action Grant money in the form of a grant. Erie City Council had already agreed to give the Authority an additional \$60,000 in federal urban Development Action Grant money as a no-interest loan. These funds were to be used to help eliminate debt related to several properties the Authority had previously purchased.

### **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, 2010, \$2,208,712 of the Authority's bank balance of \$2,708,712 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 Farm Credit Bank 4.18%	\$ 50,436
Federal National Mortgage Assoc. 4.125%	54,177
FNR 2003-35 5.0%	3,577
FHR 2631 4.5%	1,852
FNR 2004-54 5.0%	4,750
FHR 147 G 7.5%	1,753
FHR 1169 G 7.0%	1,547
Certificates of Deposit	286,164
PA Treasurer's INVEST Program for Local Governments	298,255
Various Money Market Balances	1,278,714
Total	<u>\$ 1,981,225</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, 2009</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>	<i>Dispositions</i>	<i>Balance June 30, 2010</i>
Land	N/A	\$ 327,527	\$ 220,393	-	-	\$ 547,920
Land Improvements	10-15	229,833	-	-	-	229,833
Buildings and Improvements	5-33	3,923,444	1,250	-	-	3,924,694
Buses	5-12	23,438,709	2,536,831	-	(1,108,041)	24,867,499
Fare Boxes	12	720,241	-	-	-	720,241
Vehicles and Equipment	4-7	602,821	-	-	(16,056)	586,765
Shop and Garage Equipment	5-12	1,267,495	166,015	-	(336,573)	1,096,937
Office Furniture and Equipment	4-10	407,630	36,601	-	(5,653)	438,578
Radio Equipment	10	527,051	2,033	-	-	529,084
Bus Shelters	12-15	300,177	6,000	-	-	306,177
Park and Ride	30	1,937,802	-	-	-	1,937,802
Intermodal Center	30	9,092,708	2,200	-	-	9,094,908
CNG Facility	30	1,620,317	-	-	-	1,620,317
AVL		415,125	69,487	-	-	484,612
Total		44,810,880	3,040,810	-	(1,466,323)	46,385,367
Less: Accumulated Depreciation		(23,996,409)	(2,651,777)	-	1,466,323	(25,181,863)
Net Investment in Transit System		<u>\$ 20,814,471</u>	<u>\$ 389,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,203,504</u>

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

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

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

In 1994, the Authority adopted a Non-Bargained Employees Supplemental Retirement Plan, which was implemented to provide supplemental benefits to the Authority's non-bargained employees. The plan is contributory and provides monthly payments upon retirement at age 65. Early retirement is permitted after age 52 and 10 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, 2009 was 12 years for the Regular Plan and 12 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	04/30/08	381,791	105.88%	(209,429)
	04/30/09	349,546	118.47%	(273,991)
	04/30/10	395,694	102.93%	(285,602)
Supplemental Plan	04/30/08	74,048	105.08%	(177,887)
	04/30/09	73,565	107.03%	(183,059)
	04/30/10	74,424	112.91%	(192,667)

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, 2010. The line is unsecured and bears interest at the prime rate minus 1½%. There were no borrowings outstanding at June 30, 2010.

### Erie Parking Authority

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

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

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

*Restricted Assets* - In accordance with the terms and conditions of its trust indenture, the Authority has restricted assets for the specific purposes which are as follows:

Debt Service	\$ 330,667
Debt Service Reserve	2,580,496
Construction	2,915,414
Capital Improvements	552,202
Total Restricted Assets	<u>\$ 6,378,779</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, 2010, the bank balance of the Authority's deposits that are exposed to custodial credit risk is \$2,807,990 and their carrying amount is \$2,753,193. 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.

	<i>Category</i>			<i>Fair Value</i>
	<i>1</i>	<i>2</i>	<i>3</i>	
FHLB note maturing within 4 months	\$ -	\$ -	\$ 1,960,694	\$ 1,960,694
Abbey Natl NA LLC CDPS maturing within 3 months	-	-	1,487,520	1,487,520
Abbey Natl NA LLC DISC C/P maturing within 2 months	-	-	1,000,163	1,000,163
General Electric CAP Corp DISC maturing within 1 month	350,001	-	-	350,001
	<u>\$ 350,001</u>	<u>\$ -</u>	<u>\$ 4,448,377</u>	<u>\$ 4,798,378</u>

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

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

*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 2010 is as follows:

	<i>Balance</i>			<i>Balance</i>
	<i>December 31, 2009</i>	<i>Additions</i>	<i>Dispositions</i>	<i>December 31, 2010</i>
Land	\$ 2,199,527	\$ -	\$ 311,668	\$ 1,887,859
Parking Facilities	46,470,798	1,075,801	-	47,546,599
Metered Collection Equipment	954,585	8,685	-	963,270
Other Equipment and Vehicles	595,228	44,575	-	639,803
Total Fixed Assets	50,220,138	1,129,061	311,668	51,037,531
Less: Accumulated Depreciation	20,354,554	(288,190)	-	20,642,744
Net Fixed Assets	<u>\$ 29,865,584</u>	<u>\$ 840,871</u>	<u>\$ 311,668</u>	<u>\$ 30,394,787</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, 2010 amounted to \$21,101.

*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.

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.

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

Funding Policy

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

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

Annual Pension Cost and Net Pension Obligation

Annual Required Contribution	\$ 35,392
Contributions Made	35,392
Decrease in Net Pension Obligation	-
Net Pension Obligation Beginning of Year	-
Net Pension Obligation End of Year	\$ -

The annual required contribution was determined as part of January 1, 2009 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>
12/31/2007	\$ 5,522	210.5%	\$ 11,626
12/31/2008	5,600	100.0%	5,600
12/31/2009	14,536	100.0%	14,536

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 \$35,932 in 2010. Employee contributions to the Plan amounted to \$68,625 in 2010. At December 31, 2010, 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, 2010:

Series of 2003 Refunding Bonds secured by the Authority's revenue bearing interest at 4.65% with various maturities through September 1, 2026.	\$ 6,205,000
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.	4,825,000
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.	4,534,010
Series of 2010 Refunding Bonds secured by the Authority's revenue bearing interest at 1.00% to 5.20% with various maturities through September 1, 2035.	<u>19,370,000</u>
Outstanding Principal at December 31, 2010	34,934,010
Less: Original Issue Discount	(479,934)
Less: Deferred Amount of Refunding	(747,515)
Line of Credit	673,949
Less: Current Maturities	<u>(910,000)</u>
Total Long-Term Portion	<u><u>\$ 33,470,510</u></u>

The following summarizes the maturities due subsequent to December 31, 2010, for future debt obligation payments, including \$23,748,210 of interest:

2011	\$ 2,490,033
2012	2,488,070
2013	2,527,693
2014	2,527,423
2015	2,524,198
Thereafter	<u>46,124,803</u>
	<u><u>\$ 58,682,220</u></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, 2010, \$3,645,000 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, 2010, 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	\$ 24,000,987
Investments	5,083,905
Total	<u>\$ 29,084,892</u>
Balance Sheet Amounts:	
Cash and cash equivalents	
Unrestricted	\$ 100,403
Restricted	23,900,584
Total cash and cash equivalents	<u>24,000,987</u>
Investments:	
Restricted	5,083,905
Total investments	<u>5,083,905</u>
Total	<u>\$ 29,084,892</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 62.

**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, 2010:

Sewer Revenue Bonds, Series 2002, bearing interest ranging from 2.0% to 4.125%	\$ 2,720,000
Sewer Revenue Bonds, Series A and B of 2001, bearing interest ranging from 2.25% to 5.5%	18,764,479
Sewer Revenue Bonds, Series of 2001, bearing interest ranging from 3.0% to 5.125%	12,870,000
Sewer Revenue Bonds, Series of 2009, bearing interest ranging from 2% to 4%.	13,225,000
Sewer Revenue Bonds, Series of 2010, bearing interest ranging from 3% to 5%.	<u>15,695,000</u>
Outstanding Principal at December 31, 2010	63,274,479
Less: Current Maturities	<u>(3,475,000)</u>
Total Long-Term Portion of debt	\$ 59,799,479
Less: Deferred amount on refunding	<u>(1,276,499)</u>
Total Long-Term debt, net of deferred amounts	<u><u>\$ 58,522,980</u></u>

The following summarizes the maturities due subsequent to December 31, 2010 for outstanding indebtedness of the Authority, including \$19,959,378 of interest:

2011	\$ 5,890,461
2012	5,894,130
2013	5,889,692
2014	5,892,249
2015	6,018,229
Thereafter	<u>70,719,617</u>
	<u><u>\$ 100,304,378</u></u>

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 were paid in full June 2010.

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

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

The Sewer Revenue Bonds, Series A and B of 1998, in the principal amount of \$18,465,000, were issued on June 15, 1998 to refund the Sewer Revenue Bonds, Series of 1995, construct new relief sewer lines, fund the interest on the bonds to December 31, 1998, fund a Debt Service Fund and pay the costs of issuing the bonds. The 1998 Bonds were refunded by the Sewer Revenue Bonds, Series A and B of 2001. The principal and interest payable on Series A and B of 1998 Bonds by the escrow agent at December 31, 2010 was \$14,235,000.

### 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 and 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.

#### 2010 Bond Issue

On January 1, 2010 Erie Sewer Authority issued bonds in the amount of \$15,695,000 to finance capital improvements and to pay the cost of issuance. The bonds bear interest at rates of 3-5% and mature in 2029.

#### H2O PA Grant

The Authority received a H2O Grant from the Commonwealth of Pennsylvania in the amount \$505,360. This grant will pay for some projects that have already been completed and additional project to be completed by June 30, 2012. The Authority expects to receive the first draw on this grant in 2010.

## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ERIE, PENNSYLVANIA  
Required Supplementary Information**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

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

**Budgetary Comparison Schedule** – General Fund

**CITY OF ERIE, PENNSYLVANIA**  
**Schedule of Funding Progress - Defined Benefit Retirement Plan**  
**December 31, 2010**

**City of Erie Municipal Retirement Fund**

**Defined Benefit Retirement Plan - Schedule of Funding Progress (in millions)**

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Total Covered Payroll</i>	<i>UAAL as a Percentage of Total Covered Payroll</i>
<b>City of Erie Officers' and Employees'</b>					
January 1, 2006	\$ 57.0	\$ 69.3	\$ 12.3	\$ 16.0	76.7%
January 1, 2007	\$ 58.7	\$ 69.8	\$ 11.2	\$ 14.7	75.9%
January 1, 2008		<b>Biennial Valuation</b>			
January 1, 2009	\$ 64.3	\$ 77.8	\$ 13.4	\$ 15.5	86.9%
January 1, 2010		<b>Biennial Valuation</b>			

**City of Erie Police Relief and Pension Association**

January 1, 2006		<b>Biennial Valuation</b>			
January 1, 2007	\$ 72.6	\$ 94.3	\$ 21.7	\$ 9.5	228.7%
January 1, 2008		<b>Biennial Valuation</b>			
January 1, 2009	\$ 74.3	\$ 99.8	\$ 25.5	\$ 10.6	240.1%
January 1, 2010		<b>Biennial Valuation</b>			

**City of Erie Firemen's Pension Fund**

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>			
January 1, 2009	\$ 56.0	\$ 78.7	\$ 22.7	\$ 7.8	291.0%
January 1, 2010		<b>Biennial Valuation</b>			

**CITY OF ERIE, PENNSYLVANIA**  
**Budget Comparison Schedule - General Fund**  
**For the Year Ended December 31, 2010**

	<i>Original</i>	<i>Final</i>	<i>Actual Amounts*</i>	<i>Variance with Final Budget - Positive/ (Negative)</i>
<b>REVENUES</b>				
Taxes	\$ 39,780,000	\$ 39,780,000	\$ 38,618,964	\$ (1,161,036)
Licenses and Permits	2,911,000	2,911,000	2,765,987	(145,013)
Intergovernmental	8,208,702	8,150,702	7,874,413	(276,289)
Charges for Services	396,500	454,500	440,143	(14,357)
Fines and Forfeits	1,470,000	1,470,000	1,422,142	(47,858)
Interest Income	135,000	135,000	30,376	(104,624)
Miscellaneous	300,000	300,000	285,949	(14,051)
Total Revenues	<u>53,201,202</u>	<u>53,201,202</u>	<u>51,437,974</u>	<u>(1,763,228)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	12,039,981	13,207,737	12,317,098	890,639
Public Safety	35,288,024	35,288,024	35,288,165	(141)
Highways and Streets	9,538,416	8,078,443	7,894,265	184,178
Culture and Recreation	1,168,156	1,460,373	1,388,920	71,453
Economic and Community Development	51,450	51,450	55,388	(3,938)
Total Expenditures	<u>58,086,027</u>	<u>58,086,027</u>	<u>56,943,836</u>	<u>1,142,191</u>
Deficiency of Revenues Over Expenditures	<u>(4,884,825)</u>	<u>(4,884,825)</u>	<u>(5,505,862)</u>	<u>(621,037)</u>
<b>OTHER FINANCING SOURCES</b>				
Operating Transfers In	4,884,825	4,884,825	4,884,825	-
Operating Transfers (Out)	-	-	(146,592)	(146,592)
Total Other Financing Sources	<u>4,884,825</u>	<u>4,884,825</u>	<u>4,738,233</u>	<u>(146,592)</u>
Excess of revenues and other financing sources over (under) expenditures	-	-	(767,629)	(767,629)
Fund Balance (Deficit), January 1, 2010	-	-	(936,676)	(936,676)
Fund Balance (Deficit), December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>(1,704,305)</u>	<u>\$ (1,704,305)</u>
<b>RECONCILIATION TO GAAP BASIS FUND BALANCE</b>				
Recognition of accrual basis adjustments			6,665,607	
Fund Balance December 31, 2010			<u>\$ 4,961,302</u>	

\*These amounts are on a budgetary basis.

**CITY OF ERIE, PENNSYLVANIA**  
**Notes To Required Supplementary Information**  
**On Budgetary Accounting And Control**  
**For The Year Ended December 31, 2010**

**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. The BUDAG Revolving Account is 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 the 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 Worker's 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**  
**Non-major Governmental Funds**  
**Combining Financial Statements**

**Special Revenue Funds**

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

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

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

**Capital Projects Funds**

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

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

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

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**December 31, 2010**

	<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>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,040,322	\$ 1,045,635	\$ 26,772	\$ 146,907	\$ 2,259,636
Receivables (net of allowance for uncollectibles):					-
Liens	-	-	-	43,034	43,034
Notes	72,288	-	-	-	72,288
Notes Receivable, net of current obligation	159,161	-	-	-	159,161
<b>Total Assets</b>	<b>\$ 1,271,771</b>	<b>\$ 1,045,635</b>	<b>\$ 26,772</b>	<b>\$ 189,941</b>	<b>\$ 2,534,119</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ 181,896	\$ -	\$ -	\$ 181,896
Interfund Payable	-	-	24,831	-	24,831
Deferred Revenue	-	-	-	43,033	43,033
<b>Total Liabilities</b>	<b>-</b>	<b>181,896</b>	<b>24,831</b>	<b>43,033</b>	<b>249,760</b>
<b>FUND BALANCES</b>					
Reserved:					
Noncurrent Notes Receivable	159,161	-	-	-	159,161
Unreserved:					
Undesignated	1,112,610	863,739	1,941	146,908	2,125,198
<b>Total Fund Balances</b>	<b>1,271,771</b>	<b>863,739</b>	<b>1,941</b>	<b>146,908</b>	<b>2,284,359</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,271,771</b>	<b>\$ 1,045,635</b>	<b>\$ 26,772</b>	<b>\$ 189,941</b>	<b>\$ 2,534,119</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, 2010**

	<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>					
Intergovernmental	\$ -	\$ 1,974,299	\$ -	\$ -	\$ 1,974,299
Interest Earnings	18,242	5,979	92	383	24,696
Miscellaneous	-	21,358	-	-	21,358
Total Revenues	<u>18,242</u>	<u>2,001,636</u>	<u>92</u>	<u>383</u>	<u>2,020,353</u>
<b>EXPENDITURES</b>					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Highways and Streets	-	2,173,338	-	143,607	2,316,945
Culture and Recreation	-	-	-	-	-
Economic and Community Development	130,667	-	-	-	130,667
Capital Outlay	-	-	24,169	-	24,169
Total Expenditures	<u>130,667</u>	<u>2,173,338</u>	<u>24,169</u>	<u>143,607</u>	<u>2,471,781</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(112,425)</u>	<u>(171,702)</u>	<u>(24,077)</u>	<u>(143,224)</u>	<u>(451,428)</u>
<b>OTHER FINANCING USES</b>					
Operating Transfers In	-	-	-	146,592	146,592
Operating Transfers (Out)	<u>(137,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(137,000)</u>
Total Other Financing Uses	<u>(137,000)</u>	<u>-</u>	<u>-</u>	<u>146,592</u>	<u>9,592</u>
Net Change in Fund Balance	<u>(249,425)</u>	<u>(171,702)</u>	<u>(24,077)</u>	<u>3,368</u>	<u>(441,836)</u>
Fund Balance, January 1, 2010	<u>1,521,196</u>	<u>1,035,441</u>	<u>26,018</u>	<u>143,540</u>	<u>2,726,195</u>
Fund Balance, December 31, 2010	<u>\$ 1,271,771</u>	<u>\$ 863,739</u>	<u>\$ 1,941</u>	<u>\$ 146,908</u>	<u>\$ 2,284,359</u>

**CITY OF ERIE, PENNSYLVANIA  
Non-major Proprietary Funds  
Combining Financial Statements**

**Proprietary Funds**

**Golf** – To account for the operation of the two City-owned golf courses.

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

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Assets**  
**Non-Major Proprietary Funds**  
**December 31, 2010**

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 73,038	\$ 629,260	\$ 702,298
Total Current Assets	<u>73,038</u>	<u>629,260</u>	<u>702,298</u>
Non-Current Assets:			
Capital Assets:			
Land	138,630	-	138,630
Buildings and Improvements	480,444	-	480,444
Improvements Other than Building	806,497	-	806,497
Equipment and Vehicles	637,883	-	637,883
Less Accumulated Depreciation	(1,187,919)	-	(1,187,919)
Total Capital Assets, net	<u>875,535</u>	<u>-</u>	<u>875,535</u>
Net Pension Asset	11,155	-	11,155
Total Noncurrent Assets	<u>886,690</u>	<u>-</u>	<u>886,690</u>
Total Assets	<u>\$ 959,728</u>	<u>\$ 629,260</u>	<u>\$ 1,588,988</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 495	\$ -	\$ 495
Accrued Payroll and Related	2,408	-	2,408
Interfund Payable	1,017,565	-	1,017,565
Compensated Absences Payable	477	-	477
Due to Other Governments	4,006	-	4,006
Total Current Liabilities	<u>1,024,951</u>	<u>-</u>	<u>1,024,951</u>
Noncurrent Liabilities:			
Compensated Absences Payable	5,501	-	5,501
Total Noncurrent Liabilities	<u>5,501</u>	<u>-</u>	<u>5,501</u>
Total Liabilities	<u>1,030,452</u>	<u>-</u>	<u>1,030,452</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	886,690	-	886,690
Unrestricted	(957,414)	629,260	(328,154)
Total Net Assets	<u>(70,724)</u>	<u>629,260</u>	<u>558,536</u>
Total Liabilities and Net Assets	<u>\$ 959,728</u>	<u>\$ 629,260</u>	<u>\$ 1,588,988</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, 2010**

	<i>Golf</i>	<i>Sewer Reserve</i>	<i>Total Non-Major Proprietary Funds</i>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 429,834	\$ -	\$ 429,834
Rental Income	100,917	-	100,917
Total Operating Revenues	<u>530,751</u>	<u>-</u>	<u>530,751</u>
<b>OPERATING EXPENSES</b>			
Personnel Services	231,504	-	231,504
Other Personnel Services	109,360	-	109,360
Services and Fees	30,736	-	30,736
Utilities	25,516	-	25,516
Rent	36,835	-	36,835
Insurance	5,700	-	5,700
Materials, Supplies, and Maintenance	67,639	-	67,639
Depreciation and Amortization	77,933	-	77,933
Other Expenses	4,994	-	4,994
Total Operating Expenses	<u>590,217</u>	<u>-</u>	<u>590,217</u>
Operating Loss	<u>(59,466)</u>	<u>-</u>	<u>(59,466)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental Revenue	4,000	-	4,000
Investment Earnings	266	2,028	2,294
Total Nonoperating Revenue (Expenses)	<u>4,266</u>	<u>2,028</u>	<u>6,294</u>
Total Income Before Contributions, Transfers and Special Items	<u>(55,200)</u>	<u>2,028</u>	<u>(53,172)</u>
Change in Net Assets	<u>(55,200)</u>	<u>2,028</u>	<u>(53,172)</u>
Net Assets, January 1, 2010	(587,393)	627,232	39,839
Prior Period Adjustment	571,869	-	571,869
Net Assets, December 31, 2010	<u>\$ (70,724)</u>	<u>\$ 629,260</u>	<u>\$ 558,536</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Fiduciary Funds**  
**Combining Financial Statements**

**Pension Trust Funds**

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

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

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

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

**Agency Funds**

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

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

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

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

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

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

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

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

**Other** – to account for all other monies not listed above.

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2010**

	<i>Deferred Compensation</i>	<i>Officer's and Employees</i>	<i>Police</i>	<i>Firemen's</i>	<i>Total Pension Trust Funds</i>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ -	\$ 46,793	\$ 4,210,626	\$ 3,959,354	\$ 8,216,773
Investments, at Fair Value					
Common Stocks	-	45,697,466	43,383,174	33,731,612	122,812,252
United States Government and Agency Obligations	-	10,889,166	9,477,427	7,475,410	27,842,003
Corporate Obligations	-	10,711,517	9,112,329	7,405,286	27,229,132
Registered Investment Companies - Mutual Funds	27,597,958	-	-	-	27,597,958
Mortgage Backed Securities	-	1,249,249	1,190,226	938,965	3,378,440
Short-Term Investments	-	3,431,480	-	-	3,431,480
Accrued Investment Income	-	222,463	199,139	158,153	579,755
Total Assets	<u>\$ 27,597,958</u>	<u>\$ 72,248,134</u>	<u>\$ 67,572,921</u>	<u>\$ 53,668,780</u>	<u>\$ 221,087,793</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ 25,528	\$ 6,858	\$ 32,386
Total Liabilities	<u>-</u>	<u>-</u>	<u>25,528</u>	<u>6,858</u>	<u>32,386</u>
<b>NET ASSETS</b>					
Held in Trust for Employees' Pension Benefits	27,597,958	72,248,134	67,547,393	53,661,922	221,055,407
	<u>\$ 27,597,958</u>	<u>\$ 72,248,134</u>	<u>\$ 67,572,921</u>	<u>\$ 53,668,780</u>	<u>\$ 221,087,793</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2010**

<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	\$ 103,003	\$ 1,876,288	\$ 2,885,521	\$ 2,669,197	\$ 7,534,009
City of Erie Water Authority	-	355,502	-	-	355,502
Plan Members	2,577,093	1,046,412	634,617	507,088	4,765,210
Total Contributions	<u>2,680,096</u>	<u>3,278,202</u>	<u>3,520,138</u>	<u>3,176,285</u>	<u>12,654,721</u>
Investment Earnings					
Net Appreciation in Fair Value of Investments	2,336,898	7,174,520	6,958,708	5,385,065	21,855,191
Interest and Dividends	310,935	1,700,454	1,629,607	1,229,988	4,870,984
Other Investment Income	-	-	-	36,332	36,332
Less: Investment Expenses	(81,706)	(334,576)	(320,844)	(245,716)	(982,842)
Total Investment Earnings	<u>2,566,127</u>	<u>8,540,398</u>	<u>8,267,471</u>	<u>6,405,669</u>	<u>25,779,665</u>
Other Income	-	-	30,042	-	30,042
Total Additions To Net Assets	<u>5,246,223</u>	<u>11,818,600</u>	<u>11,817,651</u>	<u>9,581,954</u>	<u>38,464,428</u>
<b>DEDUCTIONS FROM NET ASSETS</b>					
Benefits Paid	1,322,997	5,110,963	6,501,085	4,998,485	17,933,530
Participant Refunds	-	184,534	-	-	184,534
Administrative Expenses	-	83,089	68,164	62,761	214,014
Total Deductions From Net Assets	<u>1,322,997</u>	<u>5,378,586</u>	<u>6,569,249</u>	<u>5,061,246</u>	<u>18,332,078</u>
Net Increase to Net Assets	3,923,226	6,440,014	5,248,402	4,520,708	20,132,350
<b>NET ASSETS HELD IN TRUST</b>					
Net Assets, January 1, 2010	<u>23,674,732</u>	<u>65,808,120</u>	<u>62,298,991</u>	<u>49,141,214</u>	<u>200,923,057</u>
Net Assets, December 31, 2010	<u>\$ 27,597,958</u>	<u>\$ 72,248,134</u>	<u>\$ 67,547,393</u>	<u>\$ 53,661,922</u>	<u>\$ 221,055,407</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**December 31, 2010**

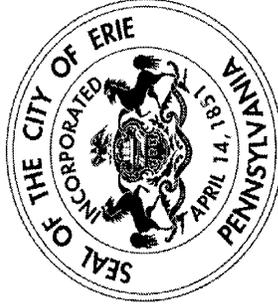
	<i>Balance at January 1, 2010</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2010</i>
<b>TRAFFIC COURT SECURITY BONDS</b>				
Assets				
Cash and Cash Equivalents	\$ 825	\$ 1,342	\$ 1,342	\$ 825
Liabilities				
Deposits Held In Trust	\$ 825	\$ 1,342	\$ 1,342	\$ 825
<b>CABLE TELEVISION SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$ 25,000	\$ -	\$ -	\$ 25,000
Liabilities				
Deposits Held In Trust	\$ 25,000	\$ -	\$ -	\$ 25,000
<b>UNCLAIMED MONIES</b>				
Assets				
Cash and Cash Equivalents	\$ 10,108	\$ 226	\$ 753	\$ 9,581
Liabilities				
Deposits Held In Trust	\$ 10,108	\$ 226	\$ 753	\$ 9,581
<b>LAND LIGHTHOUSE SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Deposits Held In Trust	\$ 500	\$ -	\$ -	\$ 500
<b>PROPERTY TAX</b>				
Assets				
Cash and Cash Equivalents	\$ 321,737	\$ 315,062	\$ 321,737	\$ 315,062
Liabilities				
Due to Other Governments	\$ 321,737	\$ 315,062	\$ 321,737	\$ 315,062

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)**  
**December 31, 2010**

	<i>Balance at January 1, 2010</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at December 31, 2010</i>
<b>COMMUNITY SERVICES</b>				
Assets				
Cash and Cash Equivalents	\$ 14,040	\$ 23,609	\$ 22,390	\$ 15,259
Liabilities				
Deposits Held In Trust	\$ 14,040	\$ 23,609	\$ 22,390	\$ 15,259
<b>FIRE INSURANCE ESCROW</b>				
Assets				
Cash and Cash Equivalents	\$ 172,626	\$ 123,528	\$ 154,835	\$ 141,319
Liabilities				
Deposits Held In Trust	\$ 172,626	\$ 123,528	\$ 154,835	\$ 141,319
<b>DICKSON TAVERN RENOVATIONS</b>				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Deposits Held In Trust	\$ 500	\$ -	\$ -	\$ 500
<b>OTHER</b>				
Assets				
Cash and Cash Equivalents	\$ 1,541,702	\$ 75,529,646	\$ 77,071,348	\$ -
Liabilities				
Deposits Held In Trust	\$ 1,541,702	\$ 75,529,646	\$ 77,071,348	\$ -
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets				
Cash and Cash Equivalents	\$ 2,087,038	\$ 75,993,413	\$ 77,572,405	\$ 508,046
Liabilities				
Deposits Held In Trust	223,599	148,705	179,320	192,984
Due to Other Governments	\$ 1,863,439	\$ 75,844,708	\$ 77,393,085	\$ 315,062
Total Liabilities	\$ 2,087,038	\$ 75,993,413	\$ 77,572,405	\$ 508,046

## STATISTICAL SECTION

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



	2008	2009	2010
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	(18,297,167)	(24,454,275)	(18,761,730)
Restricted	14,194,851	21,793,015	17,986,295
Unrestricted	27,874,948	6,962,741	9,204,027
<b>Total governmental activities net assets</b>	<u>23,772,632</u>	<u>4,301,481</u>	<u>8,428,592</u>
<b>Business-type activities</b>			
Invested in capital assets, net of related debt	24,934,938	14,519,796	3,776,511
Restricted	15,416,703	14,346,798	29,590,724
Unrestricted	(1,656,866)	733,246	(1,911,924)
<b>Total business-type activities net assets</b>	<u>38,694,775</u>	<u>29,599,840</u>	<u>31,455,311</u>
<b>Primary government</b>			
Invested in capital assets, net of related debt	6,637,771	7,801,650	(14,985,219)
Restricted	29,611,554	36,139,813	47,577,019
Unrestricted	26,218,082	7,695,987	7,292,103
<b>Total primary government net assets</b>	<u>62,467,407</u>	<u>51,637,450</u>	<u>39,888,903</u>

Source: City of Erie Finance Office

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



	2008	2009	2010
<b>Expenses</b>			
Governmental activities:			
General government	16,570,309	24,235,712	18,580,824
Public Safety	28,715,597	30,296,276	33,934,986
Highways and streets	9,628,386	6,537,013	9,397,287
Sanitation	15,742	-	371,341
Culture and Recreation	1,600,804	1,521,079	1,396,870
Economic and Community Development	4,716,960	5,052,733	6,534,114
Other	830,878	-	141,960
Interest on long-term debt	4,631,566	4,375,547	5,570,820
Total governmental activities expenses	<u>\$ 66,710,242</u>	<u>\$ 72,018,360</u>	<u>\$ 75,928,202</u>
Business-type activities:			
Sewer	25,923,397	26,750,283	25,319,321
Water	557,767	554,756	554,755
Refuse	4,876,998	4,799,527	4,716,527
Other Proprietary Funds	851,069	770,464	590,217
Total business-type activities expenses	<u>\$ 32,209,231</u>	<u>\$ 32,875,030</u>	<u>\$ 31,180,820</u>
Total primary government expenses	<u>\$ 98,919,473</u>	<u>\$ 104,893,390</u>	<u>\$ 107,109,022</u>
<b>Program Revenues</b>			
Governmental activities:			
Program revenues:			
Charges for services	446,416	425,487	443,899
Operating grants and contributions	19,684,232	19,852,816	22,692,296
Total governmental activities program revenues	<u>\$ 20,130,648</u>	<u>\$ 20,278,303</u>	<u>\$ 23,136,195</u>
Business-type activities:			
Program revenues:			
Charges for services:	29,137,064	28,899,904	33,379,158
Operating grants and contributions	-	-	-
Total business-type activities program revenues	<u>\$ 29,137,064</u>	<u>\$ 28,899,904</u>	<u>\$ 33,379,158</u>
Total primary government program revenues	<u>\$ 49,267,712</u>	<u>\$ 49,178,207</u>	<u>\$ 56,515,353</u>

<b>Net (Expense)/Revenue</b>			
Governmental activities	(46,579,594)	(51,740,057)	(52,792,007)
Business-type activities	(3,072,167)	(3,975,126)	2,198,338
Total primary government net expense	<u>\$ (49,651,761)</u>	<u>\$ (55,715,183)</u>	<u>\$ (50,593,669)</u>

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

Governmental activities:			
Taxes			
Property Taxes, General Purposes	27,355,005	25,779,221	27,878,519
Property Taxes, Debt Service	4,395,335	4,682,294	3,884,634
Income Taxes	13,227,203	12,768,629	12,829,246
Other taxes	906,901	871,530	971,528
Licenses and permits	3,562,406	3,251,589	2,563,151
Fines and penalties	1,611,162	1,326,274	1,734,819
Investment earnings	7,083	1,196,943	1,319,303
Transfers	6,980,588	4,886,274	5,198,433
Miscellaneous	738,448	394,152	537,485
Total governmental activities	<u>\$ 58,804,331</u>	<u>\$ 55,156,906</u>	<u>\$ 56,919,118</u>
Business-type activities:			
Investment earnings	721,150	392,522	458,847
Lease Rental	2,857,878	2,971,729	3,095,955
Capital asset gains/(loss)	-	1,928,955	-
Miscellaneous	1,033,955	701,234	1,300,764
Transfers	(6,980,588)	(4,886,274)	(5,198,433)
Total business-type activities	<u>\$ (2,367,605)</u>	<u>\$ 1,108,166</u>	<u>\$ (342,867)</u>
Total primary government	<u>\$ 56,436,726</u>	<u>\$ 56,265,072</u>	<u>\$ 56,576,251</u>

<b>Change in Net Assets</b>			
Governmental activities	12,224,737	3,416,849	4,127,111
Business-type activities	(5,439,772)	(2,866,960)	1,855,471
Total primary government	<u>\$ 6,784,965</u>	<u>\$ 549,889</u>	<u>\$ 5,982,582</u>

Source: City of Erie Finance Office

This Page Intentionally Left Blank

CITY OF ERIE, PENNSYLVANIA  
Fund Balances



	2008	2009	2010
<b>General Fund</b>			
Reserved	-	1,081,826	784,493
Unreserved	(829,193)	1,629,178	4,176,809
Total general fund	<u>\$ (829,193)</u>	<u>\$ 2,711,004</u>	<u>\$ 4,961,302</u>
<b>All Other Governmental Funds</b>			
Reserved	14,194,850	16,996,308	16,126,659
Unreserved, reported in:			
Endowment Principal	240,742	-	-
Undesignated	20,795,281	14,092,171	11,943,232
Total all other governmental funds	<u>\$ 35,230,873</u>	<u>\$ 31,088,479</u>	<u>\$ 28,069,891</u>

Source: City of Erie Finance Office

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



	2008	2009	2010
<b>Revenues</b>			
Taxes	\$ 42,392,319	\$ 42,382,136	\$ 42,492,941
Licenses and permits	\$ 3,562,406	\$ 3,053,789	\$ 2,762,951
Intergovernmental	\$ 16,882,767	\$ 18,139,712	\$ 20,316,101
Charges for Services	\$ 446,416	\$ 425,487	\$ 443,899
Fines and penalties	\$ 1,611,162	\$ 1,326,274	\$ 1,421,604
Investment earnings	\$ (151,631)	\$ 1,176,460	\$ 1,317,880
Payment in Lieu of Taxes	\$ 950,759	\$ 947,592	\$ 910,106
Miscellaneous	\$ 519,544	\$ 377,985	\$ 519,981
<b>Total Revenues</b>	<u>\$ 66,213,742</u>	<u>\$ 67,829,735</u>	<u>\$ 70,185,463</u>
<b>Expenditures</b>			
Current:			
General government	\$ 7,215,423	\$ 8,228,096	\$ 7,918,476
Public Safety	\$ 34,190,659	\$ 36,746,465	\$ 36,394,189
Highways and streets	\$ 11,726,968	\$ 12,100,520	\$ 12,537,722
Sanitation	\$ 15,742	\$ 177,608	\$ 487,770
Culture and Recreation	\$ 2,921,697	\$ 1,857,320	\$ 1,422,328
Economic and Community Development	\$ 5,522,804	\$ 5,769,042	\$ 9,049,692
Capital Outlay	\$ 2,011,711	\$ 19,123	\$ 165,693
Debt Service:			
Principal	\$ 5,634,765	\$ 5,803,126	\$ 5,606,021
Interest	\$ 3,164,315	\$ 2,834,957	\$ 2,570,295
<b>Total Expenditures</b>	<u>\$ 71,704,084</u>	<u>\$ 73,536,257</u>	<u>\$ 76,152,186</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(5,490,342)</u>	<u>(5,706,522)</u>	<u>(5,966,723)</u>

**Other Financing Sources and (Uses)**

Operating Transfers In	\$ 7,057,010	\$ 5,284,621	\$ 7,615,918
Operating Transfers (Out)	\$ (76,422)	\$ (398,349)	\$ (2,417,485)
Total Other Financing Sources and (Uses)	<u>\$ 6,980,588</u>	<u>\$ 4,886,272</u>	<u>\$ 5,198,433</u>
Net Change in Fund Balances	1,490,246	(820,250)	(768,290)
Debt service as a % of noncapital expenditures	12.63%	11.75%	10.76%

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Assessed Value and Estimated Actual Value of Taxable Property



Fiscal Year	Residential Property	Commercial Property	Industrial Property	Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Value	Value	Value	Value	Value	Value
2008	1,844,623,465	602,994,779	97,451,880	1,055,517,085	2,545,070,124	\$ 11.45
2009	1,844,686,965	611,783,191	95,094,580	1,055,517,085	2,551,563,836	\$ 11.45
2010	1,842,501,645	583,492,507	94,928,870	1,074,893,447	2,520,926,022	\$ 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**

Fiscal Year	City Direct Rates			Overlapping Rates	
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Erie School District	Erie County
2008	\$9.59	\$1.86	\$11.45	\$17.0687	\$5.20
2009	\$9.69	\$1.76	\$11.45	\$17.0687	\$5.45
2010	\$10.05	\$1.40	\$11.45	\$17.0687	\$6.05

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

CITY OF ERIE, PENNSYLVANIA  
 Principal Property Tax Payers  
 2010



<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Baldwin Bros et al	30,702,078	1.22%
Erie Insurance	23,404,170	0.93%
Levin Adam et al	13,847,130	0.55%
Four C's ILS	8,597,500	0.34%
Bayside Development	8,089,300	0.32%
McGarvey Stephen	7,780,200	0.31%
Missouri River Corp	7,400,000	0.29%
Covelli Albert	7,305,800	0.29%
Inland SE	7,165,375	0.28%
Lord Corp	7,107,060	0.28%
	\$ 121,398,613	4.82%

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>
2008	\$ 29,141,053	\$ 26,192,965	89.88%	\$ 2,181,383	\$ 28,374,348	97.37%
2009	\$ 28,891,594	\$ 26,027,197	90.09%	\$ 1,004,835	\$ 27,032,032	93.56%
2010	\$ 28,864,603	\$ 25,848,432	89.55%	\$ -	\$ 25,848,432	89.55%

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

**CITY OF ERIE, PENNSYLVANIA**  
 Ratios of Outstanding Debt by Type  
 2010



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					
2008	\$ 82,093,153	\$ -	\$ 19,744,584	\$ 2,125,136	\$103,962,873	3.31%	\$ 1,001.41		
2009	\$ 77,830,617	\$ -	\$ 19,624,196	\$ -	\$ 97,454,813	3.10%	\$ 940.95		
2010	\$ 74,069,690	\$ -	\$ 19,474,162	\$ -	\$ 93,543,852	2.82%	\$ 919.02		

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA  
 Ratios of General Bonded Debt Outstanding  
 2010



Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Other Bonds (Revenue, Special Assessment, etc.)	Total		
2008	\$ 101,837,737	\$ -	\$ 101,837,737	4.00%	\$ 982.52
2009	\$ 97,454,813	\$ -	\$ 97,454,813	3.86%	\$ 940.95
2010	\$ 93,543,852	\$ -	\$ 93,543,852	3.71%	\$ 919.02

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
 Direct and Overlapping Governmental Activities Debt  
 2010



<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)	34,333,631	100.00%	34,333,631
2001 General Obligation Bond (B)	4,630,000	100.00%	4,630,000
2001 General Obligation Bond (C)	13,141,504	100.00%	13,141,504
2001 General Obligation Bond (D)	8,420,000	100.00%	8,420,000
2001 General Obligation Bond (E)	13,485,000	100.00%	13,485,000
2001 General Obligation Bond (F)	11,050,000	100.00%	11,050,000
2004 General Obligation Bond (A)	6,685,000	100.00%	6,685,000
2004 General Obligation Bond (B)	1,000,000	100.00%	1,000,000
Leases	381,966	100.00%	381,966
<b>Total City Direct Debt</b>	<b>\$ 93,127,101</b>		<b>\$ 93,127,101</b>
County of Erie	\$ 81,876,276	40.00%	\$ 32,750,510
Eric School District	\$ 105,143,876	100.00%	\$ 105,143,876
Eric Sewer Authority	\$ 61,997,980	70.00%	\$ 43,398,586
Eric Parking Authority	\$ 33,470,510	100.00%	\$ 33,470,510
Eric Water Authority	\$ 190,464,729	70.00%	\$ 133,325,310
<b>Total Overlapping Debt</b>	<b>\$ 472,953,371</b>		<b>\$ 348,088,793</b>
<b>Total Direct and Overlapping Debt</b>			<b>\$ 441,215,894</b>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
 Computation of Legal Debt Margin  
 2010



**Nonelectoral Debt Incurring Capacity:**

Borrowing base(1)	\$	85,632,440
Percentage limitation		250
Net nonelectoral debt limit	\$	<u>214,081,101</u>
Less: net nonelectoral debt incurred		93,127,101
Add: current principal appropriation		6,968,213
Remaining nonelectoral debt incurring capacity	\$	<u><u>127,922,213</u></u>

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

Borrowing base(1)	\$	85,632,440
Percentage limitation		350
Net nonelectoral plus lease rental debt limit	\$	<u>299,713,541</u>
Less: net nonelectoral debt plus lease rental debt incurred		188,595,591
Add: current principal appropriation		11,353,213
Remaining nonelectoral plus lease rental debt incurring capacity	\$	<u><u>122,471,163</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:	2008	2009	2010
Population*	103,817	103,571	101,786
Personal Income (thousands of dollars)	3,148,043	3,339,543	3,319,750
Per Capita Personal Income (dollars)	30,323	32,244	32,615
Median Age	34.1	34.1	33.2
High School Graduate, % of persons age 25+	84.5	84.5	86.8
Bachelor's degree or higher, % of persons age 25+	18.2	18.4	19.4
Unemployment Rate	5.70%	9.00%	9.40%

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 conducted in 2010.

**CITY OF ERIE, PENNSYLVANIA**

Principal Employers

2010



Employer	Industry	Employees	**Percentage of Total MSA Employment
*General Electric Company	Locomotives, DC Motors, Generators	4,000	3.23%
UPMC Hamot	Health Care	2,500	2.02%
Erie Insurance Group	Insurance, Risk Management	2,200	1.77%
Saint Vincent Health Center	Health Care	2,000	1.61%
Catholic Diocese of Erie	Religious Organization	2,000	1.61%
Erie School District	Public School Facilities	1,600	1.29%
Barber National Institute	Special Education Facility	1,500	1.21%
Verizon	Public Utility, Telephone Service	1,200	0.97%
Gannon University	University	700	0.56%
Lord Corporation	Aerospace and Industrial Products	650	0.52%

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		
	2008	2009	2010
General Government			
Administration	18	19	19
Controller's Office	3	3	3
Treasurer's Office	6	6	6
Finance & Purchasing	11	11	11
Economic and Community Development	13	14	14
Other	11	11	11
Police			
Officers	167	167	173
Civilians	39	36	26
Fire			
Firefighters and Officers	134	133	135
Civilians	16	17	4
Public Works			
Code Enforcement	14	14	14
Engineering	7	7	6
Streets	48	47	47
Parks & Recreation	12	11	11
Golf	2	2	2
Refuse	32	31	32
Sewer	88	88	88
Other	35	32	37
Total:	656	649	639

Source: City of Erie Finance Office