



2011
COMPREHENSIVE
ANNUAL FINANCIAL
REPORT

YEAR ENDING DECEMBER 31, 2011

CITY OF ERIE
PENNSYLVANIA

Joseph E. Sinnott, Mayor

CITY OF ERIE, PENNSYLVANIA
Comprehensive Annual Financial Report

Year Ended December 31, 2011

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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, 2011, 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, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the individual financial statements of the component units, which represent 24 percent, 40 percent, and 22 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, 2011, 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 77 and the budget comparison schedule on page 78 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
May 1, 2013

**CITY, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

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, 2011. 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 \$50.3 million. This represents an increase of 26% over last fiscal year's restated net assets of \$39.8 million.
- During the year, the City had governmental expenses that were \$10.1 million less than the \$57.9 million generated in tax and other revenues for governmental programs. This compares to last year, when expenses were less than revenues by \$4.1 million.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of \$42.7 million. Within this total \$16.6 million is non-spendable and committed, \$2.2 million is assigned, \$21.1 million is restricted, and \$2.8 million is unassigned.
- In the City's business-type activities, operating revenues remained consistent, increasing by \$667,693 (or 2%) while operating expenses increased by \$2.3 million (or 7%).
- The general fund reported a surplus this year of \$5.2 million. As result of the surplus general fund's fund balance ended the year with a positive \$10.2 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.

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, HUD Programs, Other Grants, Capital Improvements Fund, and the General Obligation Bond Fund, all of which are considered to be major funds. Data from the other three 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, the Refuse and Recycling Fund, and the Erie Sewer Authority (Blended Component Unit). Data from the other proprietary funds 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 a separate Statement 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 \$50.3 million (excess of total assets over total liabilities) as of December 31, 2011. Analyzing the net assets of governmental and business-type activities separately, the governmental activities are \$18.8 million and business-type activities are \$31.5 million. The analysis on page 9 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 (54%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1

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

	<i>Governmental Activities</i>		<i>% Inc (Dec)</i>	<i>Business-Type Activities</i>		<i>% Inc (Dec)</i>	<i>Total</i>		<i>% Inc (Dec)</i>
	<i>2011</i>	<i>2010</i>		<i>2011</i>	<i>2010</i>		<i>2011</i>	<i>2010</i>	
Current and other assets	\$ 68,116	\$ 55,516	23%	\$ 40,668	\$ 43,232	-6%	\$ 108,784	\$ 98,748	10%
Capital assets	48,480	43,553	11%	79,454	80,101	-1%	127,934	123,654	3%
Total assets	<u>116,596</u>	<u>99,069</u>	18%	<u>120,122</u>	<u>123,333</u>	-3%	<u>236,718</u>	<u>222,402</u>	6%
Current and other liabilities	28,475	25,678	11%	15,080	14,147	7%	43,555	39,825	9%
Long-term liabilities	69,285	64,702	7%	73,508	77,731	-5%	142,793	142,433	0%
Total liabilities	<u>97,760</u>	<u>90,380</u>	8%	<u>88,588</u>	<u>91,878</u>	-4%	<u>186,348</u>	<u>182,258</u>	2%
Net assets:									
Invested in capital assets, net of related debt	(26,402)	(18,762)	41%	6,676	3,776	77%	(19,726)	(14,986)	32%
Restricted	18,849	18,246	3%	26,561	29,591	-10%	45,410	47,837	-5%
Unrestricted	26,389	9,205	187%	(1,703)	(1,912)	-11%	24,686	7,293	238%
Total net assets	<u>\$ 18,836</u>	<u>\$ 8,689</u>	117%	<u>\$ 31,534</u>	<u>\$ 31,455</u>	0%	<u>\$ 50,370</u>	<u>\$ 40,144</u>	25%

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 six major 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>2011</i>	<i>2010</i>		<i>2011</i>	<i>2010</i>		<i>2011</i>	<i>2010</i>		
Revenues										
Program Revenues:										
Charges for services	\$ 439	\$ 444	-1%	\$ 34,276	\$ 33,379	3%	\$ 34,715	\$ 33,823	3%	
Operating grants and contributions	22,270	22,692	-2%	-	-	0%	22,270	22,692	-2%	
General revenues:										
Property tax	30,178	31,763	-5%	-	-	0%	30,178	31,763	-5%	
Income tax	15,457	12,829	20%	-	-	0%	15,457	12,829	20%	
Other	972	972	0%	-	-	0%	972	972	0%	
Other general revenues	6,000	6,157	-3%	4,626	4,855	-5%	10,626	11,012	-4%	
Total revenues	75,316	74,857	1%	38,902	38,234	2%	114,218	113,091	1%	
Expenses										
General government	15,631	18,581	-16%	-	-	0%	15,631	18,581	-16%	
Public safety	35,029	33,935	3%	-	-	0%	35,029	33,935	3%	
Highway and streets	10,877	9,397	16%	-	-	0%	10,877	9,397	16%	
Sanitation	-	371	-100%	-	-	0%	-	371	-100%	
Culture and recreation	1,563	1,397	12%	-	-	0%	1,563	1,397	12%	
Economic and community development	2,096	6,534	-68%	-	-	0%	2,096	6,534	-68%	
Bond Issue and Other										
Related Costs	419	-	n/a	-	-	0%	419	-	n/a	
Other	32	142	-77%	-	-	0%	32	142	-77%	
Interest on long-term debt	4,887	5,571	-12%	-	-	0%	4,887	5,571	-12%	
Sewer	-	-	0%	27,285	25,319	8%	27,285	25,319	8%	
Water	-	-	0%	553	555	0%	553	555	0%	
Refuse	-	-	0%	5,077	4,717	8%	5,077	4,717	8%	
Other proprietary funds	-	-	0%	542	590	-8%	542	590	-8%	
Total expenses	70,534	75,928	-7%	33,457	31,181	7%	103,991	107,109	-3%	
Excess (deficiency) of revenues over expenses before capital contributions and transfers										
	4,782	(1,071)	-546%	5,445	7,053	-23%	10,227	5,982	71%	
Transfers	5,366	5,198	3%	(5,366)	(5,198)	3%	-	-	0%	
Increase in net assets	10,148	4,127	146%	79	1,855	-96%	10,227	5,982	71%	
Net Assets - Beginning of Year (Restated)	8,689	4,562		31,455	29,600		40,144	34,162		
Net Assets - End of Year	\$ 18,837	\$ 8,689		\$ 31,534	\$ 31,455		\$ 50,371	\$ 40,144		

Table 3

City of Erie, Pennsylvania						
Governmental Activities						
(amounts expressed in thousands)						
	<i>Total Cost of Services</i>		<i>% Inc</i>	<i>Net Cost of Services</i>		<i>% Inc</i>
	<i>2011</i>	<i>2010</i>	<i>(Dec)</i>	<i>2011</i>	<i>2010</i>	<i>(Dec)</i>
Governmental Activities:						
General government	\$ 15,631	\$ 18,581	-16%	\$ (10,222)	\$ (11,214)	-9%
Public safety	35,029	33,935	3%	(29,347)	(32,638)	-10%
Highways and streets	10,877	9,397	16%	(3,929)	(4,831)	-19%
Sanitation	-	371	-100%	404	771	-48%
Culture and recreation	1,563	1,397	12%	(1,430)	(1,305)	10%
Economic and community development	2,097	6,534	-68%	2,035	2,138	-5%
Bond issue and other related costs	419	-	n/a	(419)	-	n/a
Other governmental funds	32	142	-77%	(32)	(142)	-77%
Totals	<u>\$ 65,648</u>	<u>\$ 70,357</u>	-7%	<u>\$ (42,940)</u>	<u>\$ (47,221)</u>	-9%

Business-Type Activities. Revenues of the City's business-type activities (see Table 2) increased by 2% (\$38.9 million in 2011 compared to \$38.2 million in 2010) and expenses increased by 7% (\$33.5 million in 2011 compared to \$31.2 million in 2010).

Table 4

City of Erie, Pennsylvania						
Business Activities						
(amounts expressed in thousands)						
	<i>Total Cost of Services</i>		<i>% Inc</i>	<i>Net Cost of Services</i>		<i>% Inc</i>
	<i>2011</i>	<i>2010</i>	<i>(Dec)</i>	<i>2011</i>	<i>2010</i>	<i>(Dec)</i>
Business-Type Activities:						
Sewer	\$ 27,285	\$ 25,319	8%	\$ 35	\$ 973	-96%
Water	553	555	0%	(553)	(555)	0%
Refuse	5,077	4,717	8%	1,483	1,940	-24%
Other proprietary funds	542	590	-8%	(146)	(160)	-9%
Totals	<u>\$ 33,457</u>	<u>\$ 31,181</u>	7%	<u>\$ 819</u>	<u>\$ 2,198</u>	-63%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets as of December 31, 2011, amounted to \$127.9 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 increase (including additions and deductions) of \$4.3 million or a 3.5% increase 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>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Land	\$ 13,997	\$ 13,997	\$ 731	\$ 731	\$ 14,728	\$ 14,728
Building and improvements	2,961	3,003	39,605	39,524	42,566	42,527
Improvements other than buildings	1,181	1,042	10,524	11,001	11,705	12,043
Equipment and vehicles	5,120	5,416	25,185	25,323	30,305	30,739
Infrastructure	25,221	20,095	3,409	3,522	28,630	23,617
Capital assets, net	<u>\$ 48,480</u>	<u>\$ 43,553</u>	<u>\$ 79,454</u>	<u>\$ 80,101</u>	<u>\$ 127,934</u>	<u>\$ 123,654</u>

There were several large fixed asset additions during 2011 including a road paver purchased for \$279,000 and improvements to the City's downtown State Street area totaling \$3.3 million. 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 \$157.8 million. This amount was largely comprised of \$157 million in general obligation bonds.

Table 6

City of Erie, Pennsylvania						
Outstanding Debt						
(amounts expressed in thousands)						
	<i>Governmental</i>		<i>Business-Type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Accrued Interest	\$ 19,472	\$ 17,476	\$ 5,203	\$ 4,759	\$ 24,676	\$ 22,235
General obligation bonds (backed by the City)	59,641	56,212	72,658	76,919	132,299	133,131
Swap liability	-	-	587	587	587	587
Capital leases	238	382	-	-	238	382
Total	\$ 79,351	\$ 74,070	\$ 78,448	\$ 82,265	\$ 157,799	\$ 156,335

The City's total long-term debt increased by \$1.5 million, or 0.1%, during the current year. This net increase was due to an Erie Parking Authority bond issue totaling \$24.1 million on September 1, 2011 and the City of Erie bond issue totaling \$23.3 million on August 31, 2011, and maturing and defeased debt of \$45.9 million.

Bond Ratings. The City's debt rating was BBB by Standard & Poor's as of December 31, 2011. 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, 2011, the governmental funds of the City reported a combined fund balance of \$42.7 million. This ending balance includes an increase in fund balance of \$5.2 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 \$3.6 million decreased by \$2.5 million from the prior year fund balance.
- The City's General Obligation Bond Fund increased by \$7.0 million, during the latest year thereby increasing ending fund balance to \$7.0 million. This was attributable to the a City of Erie bond issue on August 31, 2011.

GENERAL FUND BUDGETARY HIGHLIGHTS

For 2011, actual expenditures on a budgetary basis were \$58.8 million compared to the budget amount of \$60.5 million. This resulted in a positive variance of \$1.7 million.

For 2011, actual revenues on a budgetary basis were \$55.7 million as compared to the budget amount of \$55.5 million. This resulted in a positive variance of \$140,509.

The City has, on a budgetary basis, an actual General Fund surplus of \$1.8 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 78*) The variance in fund balance is due to the increase 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 2012 budget, such as tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$60.8 million. This represents an increase of \$3.0 million from the 2011 budget.

The General Fund’s largest single revenue source is property taxes. The property tax rate for 2012 is 13.10 mills (.0131 per \$1,000 valuation). Of this tax rate 88% or 11.52 mills are utilized for General Fund activities. The remaining 12% or 1.58 mills are used for debt service. The General Fund’s portion of property tax revenue for 2012 is estimated to be \$29.8 million, which is an increase of 12.5% over.

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, 2011
(and fiscal year ends of component units)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 27,756,784	\$ 6,594,882	\$ 34,351,666	\$ 4,185,931
Investments	7,625,777	3,997,608	11,623,385	298,557
Receivables, (net of allowance for uncollectibles)	13,577,610	3,428,018	17,005,628	1,642,052
Internal Balances	961,056	(961,056)	-	-
Inventories	-	-	-	268,298
Prepaid Items	-	4,660,200	4,660,200	298,477
Restricted Assets:				
Cash and Cash Equivalents	1,000,000	10,822,537	11,822,537	4,988,571
Investments	-	10,655,580	10,655,580	3,342,492
Capital Assets:				
Non-Depreciable	13,997,450	730,999	14,728,449	3,333,982
Depreciable, (net)	34,482,620	78,723,292	113,205,912	52,427,809
Bond Issue Costs, (net)	659,311	1,365,553	2,024,864	1,347,572
Long-Term Receivables	16,357,350	-	16,357,350	560,872
Net Pension Benefit Asset	178,184	104,637	282,821	459,616
Total Assets	\$ 116,596,142	\$ 120,122,250	\$ 236,718,392	\$ 73,154,229
LIABILITIES				
Accounts Payable	\$ 1,901,936	\$ 719,357	\$ 2,621,293	\$ 406,161
Accrued Liabilities	1,497,787	149,709	1,647,496	1,494,044
Other Current Liabilities	3,823,801	-	3,823,801	693,370
Deferred Revenue - Current	-	773,637	773,637	-
Due to Other Governments	-	278	278	-
Non-Current Liabilities				
Due Within One Year				
Compensated Absences	380,768	19,232	400,000	-
Accrued Interest Payable	-	99,510	99,510	-
Bonds, Notes and Leases Payable	6,640,411	4,176,254	10,816,665	2,067,021
Due In More Than One Year				
Compensated Absences	4,832,340	244,079	5,076,419	-
Accrued Interest Payable	19,472,405	5,103,727	24,576,132	516,024
Bonds, Notes and Leases Payable	53,238,756	69,068,317	122,307,073	32,998,730
Net OPEB Obligation	2,893,934	-	2,893,934	1,739,545
Claims Liabilities	1,299,180	-	1,299,180	-
Deferred Revenue - Non-Current	1,778,466	8,234,090	10,012,556	-
Total Liabilities	97,759,784	88,588,190	186,347,974	39,914,895
NET ASSETS				
Invested in Capital Assets (net of related debt)	(26,401,502)	6,676,555	(19,724,947)	25,338,408
Restricted for:				
Noncurrent Notes Receivable	16,357,350	-	16,357,350	-
Debt Service	1,491,276	-	1,491,276	-
Other	1,000,000	26,560,700	27,560,700	7,313,126
Unrestricted	24,044,022	(1,703,195)	22,340,827	587,800
Designated for Future Catastrophic Losses (Note B)	2,345,212	-	2,345,212	-
Total Net Assets	18,836,358	31,534,060	50,370,418	33,239,334
Total Liabilities and Net Assets	\$ 116,596,142	\$ 120,122,250	\$ 236,718,392	\$ 73,154,229

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 December 31, 2011

Fund Balances – Total Governmental Funds \$ 42,682,569

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

Prepaid Assets	659,311
Net Pension Benefit Asset	178,184

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements. The cost of assets is \$99,197,331 and the accumulated depreciation is \$50,717,261.	48,480,070
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Receivables are expected to be collected over several years and are not available soon enough to pay for the current year's expenditures.	6,855,473
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Some liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the fund financial statements, but are appropriately included in the Statement of Net Assets of the governmental activities.

Bonds, Notes and Leases Payable	(59,879,167)
Accrued Interest on the Bonds	(19,472,405)
Liabilities for Accrued Obligations	(6,271,538)

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.	<u>5,603,861</u>
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Net Assets of Governmental Activities	<u><u>\$ 18,836,358</u></u>
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CITY OF ERIE, PENNSYLVANIA
Statement of Activities
For the Year Ended December 31, 2011
(and fiscal year ends of component units)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 15,631,070	\$ 439,171	\$ 4,970,111	\$ -
Public Safety	35,029,143	-	5,682,413	-
Highways and Streets	10,876,880	-	6,948,371	-
Sanitation	-	-	403,667	-
Culture and Recreation	1,563,239	-	133,520	-
Economic and Community Development	2,096,077	-	4,132,198	-
Bond Issue and Other Related Costs	419,324	-	-	-
Other	31,879	-	-	-
Interest on Long-Term Debt	4,886,870	-	-	-
Total Governmental Activities	<u>70,534,482</u>	<u>439,171</u>	<u>22,270,280</u>	<u>-</u>
Business-Type Activities:				
Sewer	27,285,487	27,320,390	-	-
Water	553,095	-	-	-
Refuse	5,076,654	6,559,218	-	-
Other Proprietary Funds	542,035	396,364	-	-
Total Business-Type Activities	<u>33,457,271</u>	<u>34,275,972</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 103,991,753</u>	<u>\$ 34,715,143</u>	<u>\$ 22,270,280</u>	<u>\$ -</u>
Discretely Presented Component Units	<u>\$ 31,951,555</u>	<u>\$ 12,366,811</u>	<u>\$ 15,088,068</u>	<u>\$ 4,061,712</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Activities (Continued)
For the Year Ended December 31, 2011

Functions/Programs	Net (Expense) Revenue and Changes In Net Assets			Discretely Presented Component Units
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:				
General Government	\$ (10,221,788)	\$ -	\$ (10,221,788)	\$ -
Public Safety	(29,346,730)	-	(29,346,730)	-
Highways and Streets	(3,928,509)	-	(3,928,509)	-
Sanitation	403,667	-	403,667	-
Culture and Recreation	(1,429,719)	-	(1,429,719)	-
Economic and Community Development	2,036,121	-	2,036,121	-
Bond Issue and Other Related Costs	(419,324)	-	(419,324)	-
Other	(31,879)	-	(31,879)	-
Interest on Long-Term Debt	(4,886,870)	-	(4,886,870)	-
Total Governmental Activities	(47,825,031)	-	(47,825,031)	-
Business-Type Activities:				
Sewer	-	34,903	34,903	-
Water	-	(553,095)	(553,095)	-
Refuse	-	1,482,564	1,482,564	-
Other Proprietary Funds	-	(145,671)	(145,671)	-
Total Business-Type Activities	-	818,701	818,701	-
Total Primary Government	\$ (47,825,031)	\$ 818,701	\$ (47,006,330)	\$ -
Discretely Presented Component Units				\$ (434,964)
General Revenues:				
Taxes:				
Property Taxes	\$ 30,178,116	\$ -	\$ 30,178,116	\$ -
Income Taxes	15,457,013	-	15,457,013	-
Other	970,805	-	970,805	-
Licenses and Permits	2,771,535	-	2,771,535	-
Fines and Forfeits	2,213,147	-	2,213,147	-
Investment Income	313,397	412,567	725,964	179,189
Lease Rental	-	3,225,772	3,225,772	-
Miscellaneous	702,291	988,106	1,690,397	38,419
Transfers	5,366,499	(5,366,499)	-	-
Total General Revenues and Transfers	57,972,803	(740,054)	57,232,749	217,608
Changes in Net Assets	10,147,772	78,647	10,226,419	(217,356)
Net Assets - Beginning of Year (Restated)	8,688,586	31,455,413	40,143,999	33,456,690
Net Assets - End of Year	\$ 18,836,358	\$ 31,534,060	\$ 50,370,418	\$ 33,239,334

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2011

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
ASSETS				
Cash and Cash Equivalents	\$ 8,104,519	\$ 806,966	\$ 1,462	\$ 2,522,557
Investments	-	-	-	-
Receivables, (net of allowance for uncollectibles):				
Property Tax	3,064,996	497,867	-	-
Earned Income and Local Services Tax	2,015,639	1,235,469	-	-
Liens	125,274	-	588,233	-
Intergovernmental	200,893	-	367,915	1,062,667
Interfund	3,322,077	999,245	-	-
Notes	-	-	14,366	525,112
Other	492,690	-	-	-
Notes Receivable, (net of current obligation)	-	-	9,641,403	4,195,947
Total Assets	<u>\$ 17,326,088</u>	<u>\$ 3,539,547</u>	<u>\$ 10,613,379</u>	<u>\$ 8,306,283</u>
LIABILITIES				
Accounts Payable	\$ 205,968	\$ 420	\$ 367,931	\$ 890,951
Accrued Payroll and Related	1,369,012	-	-	94
Interfund Payable	1,048,058	2,001,386	178,980	7,499
Compensated Absences Payable	380,767	-	-	-
Deferred Revenue	4,096,700	473,540	588,233	625,966
Other Liabilities	64,959	4,616,994	-	-
Total Liabilities	<u>7,165,464</u>	<u>7,092,340</u>	<u>1,135,144</u>	<u>1,524,510</u>
FUND BALANCES				
Nonspendable:				
Long-Term Receivables	-	-	9,641,403	4,195,947
Committed:	-	-	-	-
Assigned:	2,175,774	-	-	-
Restricted:				
Capital Projects	-	-	-	-
Debt Service	1,491,276	-	-	-
Economic and Community Development	-	-	-	2,585,826
Liquid Fuels Tax	-	-	-	-
Unassigned (Deficit):				
General Fund	6,493,574	-	-	-
Debt Service	-	(3,552,793)	-	-
HUD Programs	-	-	(163,168)	-
Total Fund Balances	<u>10,160,624</u>	<u>(3,552,793)</u>	<u>9,478,235</u>	<u>6,781,773</u>
Total Liabilities and Fund Equity	<u>\$ 17,326,088</u>	<u>\$ 3,539,547</u>	<u>\$ 10,613,379</u>	<u>\$ 8,306,283</u>

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Balance Sheet (Continued)
Governmental Funds
December 31, 2011

	<i>Capital Improvements Fund</i>	<i>General Obligation Bond Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
ASSETS				
Cash and Cash Equivalents	\$ 676,652	\$ 6,962,839	\$ 2,121,332	\$ 21,196,327
Investments	7,625,777	-	-	7,625,777
Receivables, (net of allowance for uncollectibles):				
Property Tax	-	-	-	3,562,863
Earned Income and Local Services Tax	-	-	-	3,251,108
Liens	-	-	58,788	772,295
Intergovernmental	-	-	-	1,631,475
Interfund	43,312	87,035	-	4,451,669
Notes	-	-	-	539,478
Other	145,000	-	-	637,690
Notes Receivable, (net of current obligation)	2,500,000	-	20,000	16,357,350
Total Assets	<u>\$ 10,990,741</u>	<u>\$ 7,049,874</u>	<u>\$ 2,200,120</u>	<u>\$ 60,026,032</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 159,977	\$ 1,625,247
Accrued Payroll and Related	-	-	-	1,369,106
Interfund Payable	6,000	24,831	-	3,266,754
Compensated Absences Payable	-	-	-	380,767
Deferred Revenue	176,410	-	58,787	6,019,636
Other Liabilities	-	-	-	4,681,953
Total Liabilities	<u>182,410</u>	<u>24,831</u>	<u>218,764</u>	<u>17,343,463</u>
FUND BALANCES				
Nonspendable:				
Long-Term Receivables	2,500,000	-	20,000	16,357,350
Committed:	-	-	282,797	282,797
Assigned:	-	-	-	2,175,774
Restricted:				
Capital Projects	8,308,331	7,025,043	-	15,333,374
Debt Service	-	-	-	1,491,276
Economic and Community Development	-	-	1,117,516	3,703,342
Liquid Fuels Tax	-	-	561,043	561,043
Unassigned (Deficit):				
General Fund	-	-	-	6,493,574
Debt Service	-	-	-	(3,552,793)
HUD Programs	-	-	-	(163,168)
Total Fund Balances	<u>10,808,331</u>	<u>7,025,043</u>	<u>1,981,356</u>	<u>42,682,569</u>
Total Liabilities and Fund Equity	<u>\$ 10,990,741</u>	<u>\$ 7,049,874</u>	<u>\$ 2,200,120</u>	<u>\$ 60,026,032</u>

See accompanying notes.

CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	<i>General Fund</i>	<i>Debt Service</i>	<i>HUD Programs</i>	<i>Other Grants</i>
REVENUES				
Taxes	\$ 40,710,077	\$ 5,130,441	\$ -	\$ -
Licenses and Permits	2,771,535	-	-	-
Intergovernmental	9,028,729	-	4,515,389	4,383,960
Charges for Services	439,171	-	-	-
Fines and Forfeits	1,440,853	-	-	-
Investment Income/(Loss)	35,495	4,324	86,321	153,774
Miscellaneous	407,482	2,200	35,757	141,404
Total Revenues	<u>54,833,342</u>	<u>5,136,965</u>	<u>4,637,467</u>	<u>4,679,138</u>
EXPENDITURES				
Current:				
General Government	8,166,776	-	-	17,501
Public Safety	36,189,256	-	486,925	335,478
Highways and Streets	8,569,066	-	1,239,314	2,980,694
Culture and Recreation	1,475,500	-	55,089	32,650
Economic and Community Development	51,302	-	2,725,125	1,175,395
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	6,042,129	-	-
Interest	-	1,973,667	-	-
Total Expenditures	<u>54,451,900</u>	<u>8,015,796</u>	<u>4,506,453</u>	<u>4,541,718</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>381,442</u>	<u>(2,878,831)</u>	<u>131,014</u>	<u>137,420</u>
OTHER FINANCING SOURCES AND (USES)				
Operating Transfers In	4,969,456	451,857	-	37,200
Operating Transfers Out	(151,576)	(52,314)	-	(39,700)
Original Bond Issuance Costs	-	-	-	-
Other Bond-Related Expenditures	-	-	-	-
Refunded Payment to Escrow	-	(8,672,600)	-	-
Proceeds from Refunding Long-Term Debt	-	8,672,600	-	-
Proceeds from General Long-Term Debt	-	-	-	-
Total Other Financing Sources and (Uses)	<u>4,817,880</u>	<u>399,543</u>	<u>-</u>	<u>(2,500)</u>
Net Change in Fund Balance	5,199,322	(2,479,288)	131,014	134,920
Fund Balance, January 1, 2011	4,961,302	(1,073,505)	9,087,221	6,646,853
Prior Period Adjustments	-	-	260,000	-
Fund Balance, December 31, 2011	<u>\$ 10,160,624</u>	<u>\$ (3,552,793)</u>	<u>\$ 9,478,235</u>	<u>\$ 6,781,773</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, 2011

	Capital Improvements Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 45,840,518
Licenses and Permits	-	-	-	2,771,535
Intergovernmental	-	-	2,052,945	19,981,023
Charges for Services	-	-	-	439,171
Fines and Forfeits	-	-	-	1,440,853
Investment Income/(Loss)	(3,708)	18,442	14,683	309,331
Miscellaneous	97,930	-	27,156	711,929
Total Revenues	<u>94,222</u>	<u>18,442</u>	<u>2,094,784</u>	<u>71,494,360</u>
EXPENDITURES				
Current:				
General Government	-	-	-	8,184,277
Public Safety	5,326	-	-	37,016,985
Highways and Streets	4,000	-	2,403,504	15,196,578
Culture and Recreation	-	-	-	1,563,239
Economic and Community Development	49,565	-	143,918	4,145,305
Capital Outlay	351,963	1,599,590	-	1,951,553
Debt Service:				
Principal	-	-	-	6,042,129
Interest	-	-	-	1,973,667
Total Expenditures	<u>410,854</u>	<u>1,599,590</u>	<u>2,547,422</u>	<u>76,073,733</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(316,632)</u>	<u>(1,581,148)</u>	<u>(452,638)</u>	<u>(4,579,373)</u>
OTHER FINANCING SOURCES AND (USES)				
Operating Transfers In	-	-	151,576	5,610,089
Operating Transfers Out	-	-	-	(243,590)
Original Bond Issuance Costs	-	(546,128)	-	(546,128)
Other Bond-Related Expenditures	-	(384,622)	-	(384,622)
Refunded Payment to Escrow	-	-	-	(8,672,600)
Proceeds from Refunding Long-Term Debt	-	-	-	8,672,600
Proceeds from General Long-Term Debt	-	9,535,000	-	9,535,000
Total Other Financing Sources and (Uses)	<u>-</u>	<u>8,604,250</u>	<u>151,576</u>	<u>13,970,749</u>
Net Change in Fund Balance	(316,632)	7,023,102	(301,062)	9,391,376
Fund Balance, January 1, 2011	11,124,963	1,941	2,282,418	33,031,193
Prior Period Adjustments	-	-	-	260,000
Fund Balance, December 31, 2011	<u>\$ 10,808,331</u>	<u>\$ 7,025,043</u>	<u>\$ 1,981,356</u>	<u>\$ 42,682,569</u>

See accompanying notes.

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, 2011

Net Change in Fund Balances – Total Governmental Funds \$ 9,391,376

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. 8,593,103

Depreciation expense on capital assets is reported in the statement of activities but it does not require the use of current financial resources; therefore, depreciation expense is not recorded as an expenditure in governmental funds. (3,627,617)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. 6,042,129

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. (9,535,000)

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. (1,883,727)

Net revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (217,312)

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. 765,416

The revenue and expenses of the internal service fund are reported with the governmental activities. 619,404

Change in Net Assets of Governmental Activities \$ 10,147,772

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets
Proprietary Funds
December 31, 2011

	<i>Sewer Revenue</i>	<i>Water Revenue</i>	<i>Refuse and Recycling</i>	<i>Other Proprietary Funds</i>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 3,581,402	\$ -	\$ 2,121,768	\$ 744,749
Restricted Cash and Cash Equivalents	-	-	-	-
Investments	-	-	-	-
Restricted Investments	-	-	-	-
Receivables, (net of allowance for uncollectibles):				
Accounts	1,412,590	-	1,123,184	-
Intergovernmental	328,825	-	-	-
Interfund	173,265	-	27,515	-
Other	79,191	-	-	-
Prepaid Items	4,660,200	-	-	-
Total Current Assets	<u>10,235,473</u>	<u>-</u>	<u>3,272,467</u>	<u>744,749</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	6,000,866	4,123,328	5,106,373	637,883
Infrastructure	4,655,662	-	-	-
Less Accumulated Depreciation	(6,698,585)	(35,591,951)	(3,409,871)	(1,258,626)
Total Capital Assets, (net)	<u>5,276,717</u>	<u>12,259,208</u>	<u>1,880,063</u>	<u>804,828</u>
Unamortized Bond Costs	137,860	-	-	-
Net Pension Asset	48,543	-	43,689	12,405
Total Non-Current Assets	<u>5,463,120</u>	<u>12,259,208</u>	<u>1,923,752</u>	<u>817,233</u>
Total Assets	<u>\$ 15,698,593</u>	<u>\$ 12,259,208</u>	<u>\$ 5,196,219</u>	<u>\$ 1,561,982</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 349,722	\$ -	\$ 65,044	\$ 1,493
Accrued Payroll and Related	109,890	-	37,079	2,740
Interfund Payable	95,860	-	42,789	1,023,187
Accrued Interest Payable	-	-	-	-
Compensated Absences Payable	14,942	-	3,465	825
Deferred Revenue	553,093	211,130	-	9,414
Current Portion of Bonds Payable	581,254	-	-	-
Due to Other Governments	-	-	-	278
Total Current Liabilities	<u>1,704,761</u>	<u>211,130</u>	<u>148,377</u>	<u>1,037,937</u>
Non-Current Liabilities:				
Accrued Interest Payable	5,103,727	-	-	-
Compensated Absences Payable	189,617	-	43,990	10,472
Claims and Judgments Payable	-	-	-	-
Deferred Revenue	-	8,234,090	-	-
General Obligation Bonds Payable	13,871,705	-	-	-
Total Non-Current Liabilities	<u>19,165,049</u>	<u>8,234,090</u>	<u>43,990</u>	<u>10,472</u>
Total Liabilities	<u>20,869,810</u>	<u>8,445,220</u>	<u>192,367</u>	<u>1,048,409</u>
NET ASSETS				
Invested in Capital Assets, (net of related debt)	(8,989,839)	12,259,208	1,923,752	817,233
Restricted	-	-	-	-
Unrestricted	3,818,622	(8,445,220)	3,080,100	(303,660)
Designated for Future Catastrophic Losses (<i>Note B</i>)	-	-	-	-
Total Net Assets	<u>(5,171,217)</u>	<u>3,813,988</u>	<u>5,003,852</u>	<u>513,573</u>
Total Liabilities and Net Assets	<u>\$ 15,698,593</u>	<u>\$ 12,259,208</u>	<u>\$ 5,196,219</u>	<u>\$ 1,561,982</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets (Continued)
Proprietary Funds
December 31, 2011

	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 146,963	\$ 6,594,882	\$ 6,560,457
Restricted Cash and Cash Equivalents	10,822,537	10,822,537	1,000,000
Investments	3,997,608	3,997,608	-
Restricted Investments	10,655,580	10,655,580	-
Receivables, (net of allowance for uncollectibles):			
Accounts	113,407	2,649,181	-
Intergovernmental	229,584	558,409	-
Interfund	-	200,780	196,874
Other	141,237	220,428	94,858
Prepaid Items	-	4,660,200	-
Total Current Assets	<u>26,106,916</u>	<u>40,359,605</u>	<u>7,852,189</u>
Non-Current Assets:			
Capital Assets:			
Land	-	730,999	-
Buildings and Improvements	117,430,502	127,181,938	-
Improvements Other than Building	-	36,173,302	-
Equipment and Vehicles	21,781,094	37,649,544	-
Infrastructure	-	4,655,662	-
Less Accumulated Depreciation	(79,978,121)	(126,937,154)	-
Total Capital Assets, (net)	<u>59,233,475</u>	<u>79,454,291</u>	<u>-</u>
Unamortized Bond Costs	1,227,693	1,365,553	-
Net Pension Asset	-	104,637	-
Total Non-Current Assets	<u>60,461,168</u>	<u>80,924,481</u>	<u>-</u>
Total Assets	<u>\$ 86,568,084</u>	<u>\$ 121,284,086</u>	<u>\$ 7,852,189</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 303,098	\$ 719,357	\$ 399,734
Accrued Payroll and Related	-	149,709	128,681
Interfund Payable	-	1,161,836	420,733
Accrued Interest Payable	99,510	99,510	-
Compensated Absences Payable	-	19,232	-
Deferred Revenue	-	773,637	-
Current Portion of Bonds Payable	3,595,000	4,176,254	-
Due to Other Governments	-	278	-
Total Current Liabilities	<u>3,997,608</u>	<u>7,099,813</u>	<u>949,148</u>
Non-Current Liabilities:			
Accrued Interest Payable	-	5,103,727	-
Compensated Absences Payable	-	244,079	-
Claims and Judgments Payable	-	-	1,299,180
Deferred Revenue	-	8,234,090	-
General Obligation Bonds Payable	55,196,612	69,068,317	-
Total Non-Current Liabilities	<u>55,196,612</u>	<u>82,650,213</u>	<u>1,299,180</u>
Total Liabilities	<u>59,194,220</u>	<u>89,750,026</u>	<u>2,248,328</u>
NET ASSETS			
Invested in Capital Assets, (net of related debt)	666,201	6,676,555	-
Restricted	26,560,700	26,560,700	1,000,000
Unrestricted	146,963	(1,703,195)	2,258,649
Designated for Future Catastrophic Losses (Note B)	-	-	2,345,212
Total Net Assets	<u>27,373,864</u>	<u>31,534,060</u>	<u>5,603,861</u>
Total Liabilities and Net Assets	<u>\$ 86,568,084</u>	<u>\$ 121,284,086</u>	<u>\$ 7,852,189</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, 2011

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
OPERATING REVENUES							
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -	\$ 6,533,059	\$ 6,533,059	\$ 10,840,552
Charges for Services	20,787,331	-	6,559,218	396,364	-	27,742,913	-
Lease Rental	-	3,225,772	-	-	-	3,225,772	-
Rental Income	-	-	-	95,066	-	95,066	-
Miscellaneous	77,416	-	70,375	208	-	147,999	365
Total Operating Revenues	20,864,747	3,225,772	6,629,593	491,638	6,533,059	37,744,809	10,840,917
OPERATING EXPENSES							
Personnel Services	4,304,574	-	1,628,549	231,837	-	6,164,960	-
Other Personnel Services	2,262,331	-	893,345	59,554	-	3,215,230	-
Services and Fees	2,326,942	-	1,726,610	24,909	29,963	4,108,424	77,075
Utilities	1,925,699	-	20,629	27,129	-	1,973,457	-
Rent	3,648	-	99	38,130	-	41,877	-
Insurance	432,170	-	25,520	5,700	-	463,390	9,167,655
Materials, Supplies, and Maintenance	1,094,836	-	522,395	75,942	-	1,693,173	-
Workers Compensation Claims and Other Claims	-	-	-	-	-	-	980,849
Depreciation and Amortization	346,523	553,095	251,605	70,707	4,595,031	5,816,961	-
Leases	6,533,059	-	-	-	-	6,533,059	-
Other Expenses	57,415	-	7,902	8,127	19,439	92,883	-
Total Operating Expenses	19,287,197	553,095	5,076,654	542,035	4,644,433	30,103,414	10,225,579
Operating Income (Loss)	1,577,550	2,672,677	1,552,939	(50,397)	1,888,626	7,641,395	615,338
NONOPERATING REVENUES (EXPENSES)							
Intergovernmental Revenue	281,484	-	102,000	4,000	2,159	389,643	-
Investment Earnings	4,287	-	3,299	1,434	403,547	412,567	4,066
Other Income	-	-	-	-	355,398	355,398	-
Interest Expense	(1,073,901)	-	-	-	(2,279,956)	(3,353,857)	-
Total Nonoperating Revenues (Expenses)	(788,130)	-	105,299	5,434	(1,518,852)	(2,196,249)	4,066
Total Income (Loss) Before Transfers	789,420	2,672,677	1,658,238	(44,963)	369,774	5,445,146	619,404
Transfers In	133,333	-	-	-	-	133,333	-
Transfers (Out)	(1,451,859)	(3,014,642)	(1,033,331)	-	-	(5,499,832)	-
Change in Net Assets	(529,106)	(341,965)	624,907	(44,963)	369,774	78,647	619,404
Fund Equity, January 1, 2011	(4,642,111)	4,155,953	4,378,945	558,536	27,004,090	31,455,413	4,984,457
Fund Equity, December 31, 2011	\$(5,171,217)	\$ 3,813,988	\$ 5,003,852	\$ 513,573	\$ 27,373,864	\$ 31,534,060	\$ 5,603,861

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
Cash Flows From Operating Activities							
Receipts from Customers and Users	\$20,592,281	\$ 3,225,772	\$ 6,375,128	\$ 500,844	\$ -	\$30,694,025	\$ -
Receipts from Interfund Services Provided	-	-	-	-	-	-	10,921,095
Net Receipts from Other Operating Activities	453,074	(211,130)	105,893	208	6,533,059	6,881,104	365
Payments to Suppliers	(3,244,136)	-	(2,229,867)	(97,959)	(62,186)	(5,634,148)	-
Payments to Employees	(6,525,835)	-	(2,512,663)	(286,990)	-	(9,325,488)	-
Payments for Other Operating Activities	(8,951,991)	-	(54,150)	(79,086)	-	(9,085,227)	(10,242,053)
Net Cash Provided (Used) by Operating Activities	2,323,393	3,014,642	1,684,341	37,017	6,470,873	13,530,266	679,407
Cash Flows From Noncapital Financing Activities							
Transfers (to) from Other Funds	(1,318,526)	(3,014,642)	(1,033,331)	-	-	(5,366,499)	-
Intergovernmental Revenue	281,484	-	102,000	4,000	-	387,484	-
Net Cash Provided (Used) by Noncapital Financing Activities	(1,037,042)	(3,014,642)	(931,331)	4,000	-	(4,979,015)	-
Cash Flows From Capital and Related Financing Activities							
Purchases of Capital Assets	(48,175)	-	(267,452)	-	-	(315,627)	-
Acquisition and Construction of Capital Assets	-	-	-	-	(4,158,309)	(4,158,309)	-
Net Proceeds from Capital Debt	-	-	-	-	(593,377)	(593,377)	-
Interest Paid on Capital Debt	(465,771)	-	-	-	(2,386,560)	(2,852,331)	-
Principal Paid on Capital Debt	(553,700)	-	-	-	(3,155,000)	(3,708,700)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,067,646)	-	(267,452)	-	(10,293,246)	(11,628,344)	-
Cash Flows From Investing Activities							
Decrease in Restricted Investments	-	-	-	-	(9,569,283)	(9,569,283)	-
Interest and Dividends Received	4,287	-	3,299	1,434	360,169	369,189	4,066
Net Cash Provided (Used) by Investing Activities	4,287	-	3,299	1,434	(9,209,114)	(9,200,094)	4,066
Net Increase (Decrease) in Cash and Cash Equivalents	222,992	-	488,857	42,451	(13,031,487)	(12,277,187)	683,473
Cash and Cash Equivalents, January 1, 2011 (Including \$1,000,000 for the Internal Service Fund Reported in Restricted Accounts)	3,358,410	-	1,632,911	702,298	24,000,987	29,694,606	6,876,984
Cash and Cash Equivalents, December 31, 2011	\$ 3,581,402	\$ -	\$ 2,121,768	\$ 744,749	\$10,969,500	\$17,417,419	\$ 7,560,457

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2011

	Sewer Revenue	Water Revenue	Refuse and Recycling	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
Reconciliation of Operating Profit (Loss) to Net Cash Provided by Operating Activities							
Operating Profit (Loss)	\$ 1,577,550	\$ 2,672,677	\$ 1,552,939	\$ (50,397)	\$ 1,888,626	\$ 7,641,395	\$ 615,338
Adjustments to Reconcile Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation and Amortization Expense	346,523	553,095	251,605	70,707	4,595,031	5,816,961	-
Loss on Sale of Fixed Assets	-	-	35,518	-	-	35,518	-
(Increase) Decrease in Accounts Receivable	(88,282)	-	(184,090)	-	(214,897)	(487,269)	-
(Increase) Decrease in Intergovernmental Receivables	(105,489)	-	-	-	-	(105,489)	-
(Increase) Decrease Other Receivables	(1,279)	-	-	-	-	(1,279)	(86,120)
(Increase) Decrease in Interfund Receivables	-	-	-	-	-	-	(51,183)
(Increase) Decrease in Prepaid Items	2,200	-	-	-	-	2,200	-
(Increase) Decrease in Net Pension Asset	14,582	-	(5,563)	(1,250)	-	7,769	-
Increase (Decrease) in Accounts Payable	90,607	-	19,138	998	202,113	312,856	339,927
Increase (Decrease) in Accrued Payroll and Related	13,016	-	10,052	332	-	23,400	(94,826)
Increase (Decrease) in Interfund Payables	87,035	-	-	5,622	-	92,657	131,726
Increase (Decrease) in Compensated Absences Payable	28,054	-	4,742	5,319	-	38,115	-
Increase (Decrease) in Due to Other Governments	-	-	-	(3,728)	-	(3,728)	-
Increase (Decrease) in Claims and Judgments Payable	-	-	-	-	-	-	(175,455)
Increase (Decrease) in Deferred Revenue	358,876	(211,130)	-	9,414	-	157,160	-
Total Adjustments	745,843	341,965	131,402	87,414	4,582,247	5,888,871	64,069
Net Cash Provided (Used) by Operating Activities	\$ 2,323,393	\$ 3,014,642	\$ 1,684,341	\$ 37,017	\$ 6,470,873	\$ 13,530,266	\$ 679,407

CITY OF ERIE, PENNSYLVANIA
Statement of Fiduciary Net Assets
December 31, 2011

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 7,812,064	\$ 568,088
Investments, at Fair Value		
Common Stocks	111,862,289	-
United States Government and Agency Obligations	34,754,032	-
Corporate Obligations	25,852,838	-
Registered Investment Companies - Mutual Funds	28,316,269	-
Mortgage Backed Securities	1,440,730	-
Short-Term Investments	3,417,279	-
Accrued Investment Income	609,704	-
Total Assets	\$ 214,065,205	\$ 568,088
LIABILITIES		
Accounts Payable	\$ 15,959	\$ -
Deposits Held in Trust	-	253,024
Due to Other Governments	-	315,064
Total Liabilities	15,959	568,088
NET ASSETS		
Held in Trust for Employees' Pension Benefits	214,049,246	-
Total Liabilities and Net Assets	\$ 214,065,205	\$ 568,088

CITY OF ERIE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2011

	<u>Pension Trust Funds</u>
ADDITIONS TO NET ASSETS	
Contributions	
Employer	\$ 7,042,432
City of Erie Water Authority	307,995
Plan Members	5,055,826
Total Contributions	<u>12,406,253</u>
Investment Earnings	
Net Depreciation in Fair Value of Investments	(4,246,957)
Interest and Dividends	5,098,213
Other Investment Income	33,415
Less: Investment Expenses	(1,061,592)
Total Investment Earnings	<u>(176,921)</u>
Other Income	42,272
Total Additions To Net Assets	<u>12,271,604</u>
 DEDUCTIONS FROM NET ASSETS	
Benefits Paid	18,981,610
Participant Refunds	73,132
Administrative Expenses	223,023
Total Deductions from Net Assets	<u>19,277,765</u>
 Net Decrease to Net Assets	 (7,006,161)
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net Assets, January 1, 2011	<u>221,055,407</u>
Net Assets, December 31, 2011	<u>\$ 214,049,246</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets
Component Units
December 31, 2011

	<i>Erie</i>			<i>Total</i>
	<i>Redevelopment Authority of the City of Erie</i>	<i>Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	
ASSETS				
Cash and Cash Equivalents	\$ 1,194	\$ 1,852,587	\$ 2,332,150	\$ 4,185,931
Investments	-	298,557	-	298,557
Receivables, (net of allowance for uncollectibles)	43,489	1,425,075	173,488	1,642,052
Inventories	-	268,298	-	268,298
Prepaid	-	193,380	105,097	298,477
Restricted Assets:				
Cash and Cash Equivalents	46,367	2,950,488	1,991,716	4,988,571
Investments	-	606,058	2,736,434	3,342,492
Capital Assets:				
Non-Depreciable	-	1,446,123	1,887,859	3,333,982
Depreciable, (net)	2,336,601	20,839,364	29,251,844	52,427,809
Bond Issue Costs, (net)	-	-	1,347,572	1,347,572
Long-Term Receivable	6,060	-	554,812	560,872
Net Pension Benefit Asset	-	459,616	-	459,616
Total Assets	<u>\$ 2,433,711</u>	<u>\$ 30,339,546</u>	<u>\$ 40,380,972</u>	<u>\$ 73,154,229</u>
LIABILITIES				
Accounts Payable	\$ 141,825	\$ 215,931	\$ 48,405	\$ 406,161
Accrued Liabilities	17,679	1,416,378	59,987	1,494,044
Accrued Interest Payable	-	-	516,024	516,024
Other Current Liabilities	-	693,370	-	693,370
Non-Current Liabilities				
Due Within One Year				
Bonds, Notes and Leases Payable	1,127,021	-	940,000	2,067,021
Due In More Than One Year				
Bonds, Notes and Leases Payable	246,859	-	32,751,871	32,998,730
Net OPEB Obligation	-	1,739,545	-	1,739,545
Total Liabilities	<u>1,533,384</u>	<u>4,065,224</u>	<u>34,316,287</u>	<u>39,914,895</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt)	2,085,724	22,285,487	967,197	25,338,408
Restricted for:				
Other	-	3,556,546	3,756,580	7,313,126
Unrestricted:				
Undesignated	(1,185,397)	432,289	1,340,908	587,800
Total Net Assets	<u>900,327</u>	<u>26,274,322</u>	<u>6,064,685</u>	<u>33,239,334</u>
Total Liabilities and Net Assets	<u>\$ 2,433,711</u>	<u>\$ 30,339,546</u>	<u>\$ 40,380,972</u>	<u>\$ 73,154,229</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Activities
Component Units
For the Year Ended December 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental Activities:						
Economic and Community Development	\$ -	\$ 4,283,079	\$ -	\$ (1,183,376)	\$ -	\$ (1,183,376)
Total Governmental Activities	\$ -	\$ 4,283,079	\$ -	\$ (1,183,376)	\$ -	\$ (1,183,376)
Business-Type Activities:						
Public Transportation	6,890,412	10,804,989	4,061,712	-	1,140,261	1,140,261
Metered Parking	5,476,399	-	-	-	(391,849)	(391,849)
Total Business-Type Activities	12,366,811	10,804,989	4,061,712	-	748,412	748,412
Total Component Units	\$ 12,366,811	\$ 15,088,068	\$ 4,061,712	\$ (1,183,376)	\$ 748,412	\$ (434,964)
	General Revenues:					
				1,575	177,614	179,189
				26,208	12,211	38,419
				27,783	189,825	217,608
				(1,155,593)	938,237	(217,356)
				2,055,920	31,400,770	33,456,690
				\$ 900,327	\$ 32,339,007	\$ 33,239,334
				Total General Revenues and Transfers		
				Changes in net assets		
				Net assets - Beginning of Year		
				Net assets - End of Year		

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows
Component Units
For the Year Ended December 31, 2011

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
Cash Flows From Operating Activities			
Receipts from Customers and Users	\$ -	\$ 5,455,845	\$ 5,455,845
Receipts from Services Provided	6,987,089	-	6,987,089
Payments to Suppliers	(7,374,014)	(1,856,488)	(9,230,502)
Payments to Employees	(8,543,285)	(1,006,100)	(9,549,385)
Payments for Employee Benefits and Taxes	(3,021,963)	-	(3,021,963)
Net Cash Provided (Used) by Operating Activities	<u>(11,952,173)</u>	<u>2,593,257</u>	<u>(9,358,916)</u>
Cash Flows From Noncapital Financing Activities			
Cash Receipts from Operating Grants	10,804,989	-	10,804,989
Net Cash Provided (Used) by Noncapital Financing Activities	<u>10,804,989</u>	<u>-</u>	<u>10,804,989</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and Construction of Capital Assets	(4,095,337)	(2,001,806)	(6,097,143)
Net Payments on Line of Credit	-	(11,175)	(11,175)
Payments on Long-Term Receivable	-	25,677	25,677
Interest Paid on Capital Debt	-	(1,609,108)	(1,609,108)
Principal Paid on Capital Debt	-	(910,000)	(910,000)
Capital Grant Receipts	6,180,391	-	6,180,391
Proceeds from Sales of Capital Assets	11,811	445,400	457,211
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>2,096,865</u>	<u>(4,061,012)</u>	<u>(1,964,147)</u>
Cash Flows From Investing Activities			
Net Purchase of Investments	1,076,610	2,061,945	3,138,555
Interest and Dividends Received	15,289	162,325	177,614
Net Cash Provided (Used) by Investing Activities	<u>1,091,899</u>	<u>2,224,270</u>	<u>3,316,169</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,041,580	756,515	2,798,095
Cash and Cash Equivalents, January 1, 2011	<u>2,761,495</u>	<u>3,567,351</u>	<u>6,328,846</u>
Cash and Cash Equivalents, December 31, 2011	<u>\$ 4,803,075</u>	<u>\$ 4,323,866</u>	<u>\$ 9,126,941</u>

CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows (Continued)
Component Units
For the Year Ended December 31, 2011

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
Reconciliation of Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Profit (Loss)	\$ (13,726,440)	\$ 1,214,954	\$ (12,511,486)
Adjustments to Reconcile Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	3,013,354	1,371,843	4,385,197
Amortization Expense	-	25,074	25,074
(Increase) Decrease in Net Pension Benefit Asset	18,653	-	18,653
(Increase) Decrease in Liability for Retiree Health Insurance	422,737	-	422,737
(Increase) Decrease in Accounts Receivable	(33,588)	(20,554)	(54,142)
(Increase) Decrease in Operating Grants Receivable	346,258	-	346,258
(Increase) Decrease in Inventories	(17,745)	-	(17,745)
(Increase) Decrease in Prepaid Items	202,367	16,820	219,187
Increase (Decrease) in Accounts Payable	(2,087,919)	(13,645)	(2,101,564)
Increase (Decrease) in Accrued Payroll and Related	125,923	(1,235)	124,688
Increase (Decrease) in Other Accrued Items	220	-	220
Increase (Decrease) in Operating Government Advances	(179,951)	-	(179,951)
Increase (Decrease) in Unredeemed Tokens, etc.	(36,042)	-	(36,042)
Total Adjustments	<u>1,774,267</u>	<u>1,378,303</u>	<u>3,152,570</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (11,952,173)</u>	<u>\$ 2,593,257</u>	<u>\$ (9,358,916)</u>

CITY OF ERIE, PENNSYLVANIA
Notes to Basic Financial Statements
December 31, 2011

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, 2011 Unqualified opinion dated November 30, 2012	Erie Parking Authority 25 East 10th Street Erie, Pennsylvania 16501 December 31, 2011 Unqualified opinion dated February 10, 2012
Erie Metropolitan Transit Authority 127 East 14th Street Erie, Pennsylvania 16503 June 30, 2011 Unqualified opinion dated December 3, 2011	Erie Sewer Authority 120 West 10 th Street Erie, Pennsylvania 16501 December 31, 2011 Unqualified opinion dated March 5, 2012

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.

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

General Obligation Bond Fund – To account for activity related to general obligation bond issues.

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 to the 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On a modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: earned income taxes, delinquent real estate taxes, interest, and grants.

Deferred Revenue - 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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Implementation of GASB 54 – In March of 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The City of Erie implemented GASB 54 for the year ended December 31, 2011.

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balances cannot be spent because of their form. Restricted fund balances have limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balances have limitations imposed by the Erie City Council through approval of resolutions and ordinances. Committed fund balances can be assigned for other uses only by similar actions of the Erie City Council. Assigned fund balances have limitations imposed by a designee of the Erie City Council. Unassigned fund balances in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

Proprietary fund net assets are classified the same as in the government-wide statements.

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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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.

<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.	43,650,389	44,008,038
Total	<u>\$ 46,150,389</u>	<u>\$ 46,508,038</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, 2011 are as follows:

<u>Type</u>	<u>Fair Value</u>
Total Deposits	\$ 46,174,203
Investments	
Fixed Income (level 2)	17,459,884
Equities (level 1)	4,819,081
Total Investments	<u>22,278,965</u>
Total Deposits and Investments	<u>\$ 68,453,168</u>
Reconciliation to Statement of Net Assets	
Cash and Cash Equivalents	\$ 34,351,666
Restricted Cash and Cash Equivalents	11,822,537
Investments	11,623,385
Restricted Investments	10,655,580
	<u>\$ 68,453,168</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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.

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 Selec tinvest 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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

The following table presents the investment in investment funds carried on the Statement of Financial Condition by caption and by level within the valuation hierarchy as of December 31, 2011:

	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Balance as of December 31, 2011</i>
Investments in Funds: (at fair value)	\$ 132,837	\$ 132,837

At December 31, 2011, the Limited Partnership did not have any financial instruments within Level 1 or 2 based upon the significance of the unobservable inputs to the overall fair value measurement.

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

Changes in Level 3 Assets measured at fair value for the year ended December 31, 2011:

	Level 3					<i>Change in Unrealized Gains (losses) for Investments December 31, 2011</i>
	<i>Beginning Balance January 1, 2011</i>	<i>Realized & Unrealized Gains (Losses)</i>	<i>Purchases, Sales & Settlements</i>	<i>Net Transfers In and/or (Out) of</i>	<i>Ending Balance December 31, 2011</i>	
Investments in Investment Funds	\$ 194,332	\$ (1,090)	\$ -	\$ (60,405)	\$ 132,837	\$ (1,090)

The following table represents the City's investment in the Limited Partnership - Selectinvest ARV, as of December 31, 2011:

Beginning Value of Capital Account: (As of January 1, 2011)	\$ 194,332
Capital Additions:	(60,405)
Net Income/Loss:	<u>(1,090)</u>
Ending Value of Capital Account: (As of December 31, 2011)	<u>\$ 132,837</u>

Accounts Receivable – Accounts receivable represents the balance due to the City's Sewer Revenue and Refuse and Recycling Funds as of December 31, 2011 for services provided through December 31, 2011, net of an allowance for uncollectible accounts.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

	<i>Sewer Revenue Fund</i>	<i>Refuse and Recycling Fund</i>	<i>Sewer Authority</i>	<i>Total</i>
Gross Accounts Receivable	\$ 1,538,590	\$ 1,817,184	\$ 113,407	\$ 3,469,181
Less: Allowance for Doubtful Accounts	(126,000)	(694,000)	-	(820,000)
Accounts Receivable, net	<u>\$ 1,412,590</u>	<u>\$ 1,123,184</u>	<u>\$ 113,407</u>	<u>\$ 2,649,181</u>

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

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

The City levied real estate taxes of \$28,757,063 on January 1, 2011 based on a gross assessed valuation of \$2,511,533,854 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, 2011. Current real estate taxes receivable at December 31, 2011 consists of the face value of the tax levy uncollected at December 31, 2011.

The receivable for outstanding delinquent tax levied at December 31, 2011 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, 2011. In accordance with accounting principles generally accepted in the United States of America, revenue from these receivables is recognized only to the extent received within 60 days of December 31, 2011.

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 2011	\$ 4,514,673
Cost Charged by the County for Collection of the Above	<u>(225,734)</u>
Total Property Tax Receivable	4,288,939
Allowance for Doubtful Accounts	(726,077)
Subsequent Receipts Received	(348,181)
Total Lien Receivable	125,274
Other Deferred Revenue	<u>127,451</u>
Total Deferred Revenue	<u><u>\$ 3,467,406</u></u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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

Earned Income Tax and Local Services Tax Receivable – The Earned Income Tax and Local Service Tax receivable represents the City's share of the fourth quarter, 2011 taxes collected by the tax collector in January and February 2012 as follows:

Estimated Share of December 31, 2011 Cash Balance	\$ -
Estimated Share of January and February 2012 Cash Receipts	2,015,639
Total Receivable	<u>\$ 2,015,639</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 2011, payments made to the City totaled \$1,051,414 representing \$809,823 of principal and \$241,591 of interest. The detailed activity is as follows:

Balance Outstanding at January 1, 2011	\$ 14,177,017
2011 Loans	1,075,084
2011 Write Offs	(143,917)
2011 Accrued Interest on Loans	98,467
Principal Repayments	(809,823)
Balance Outstanding at December 31, 2011	<u>\$ 14,396,828</u>

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

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

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

	<i>General Fund</i>	<i>Special Revenue</i>	<i>Capital Projects</i>
Gross Amount of Lien Receivables	\$ 225,361	\$ 1,203,285	\$ 86,725
Less: Provision for Uncollectible Receivables	(100,087)	(615,052)	(27,937)
Net Lien Receivables	<u>\$ 125,274</u>	<u>\$ 588,233</u>	<u>\$ 58,788</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 Funds at December 31, 2011 is \$4,096,700; \$1,214,199; \$176,410 and \$9,007,727, 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.

2012	\$	3,150,301
2013		3,292,065
2014		3,440,208
2015		3,595,017
2016 and thereafter		147,800,000
Total Future Lease Payments	\$	<u>161,277,591</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 \$4,660,200 at December 31, 2011.

Capital Assets – Capital asset activity for primary government – governmental activities for the year ended December 31, 2011 is shown on the following page:

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
Governmental Activities				
Non-Depreciable Assets:				
Land	\$ 13,997,450	\$ -	\$ -	\$ 13,997,450
Depreciable Assets:				
Buildings and Improvements	9,593,181	125,645	-	9,718,826
Improvements Other than Building	2,585,519	224,940	-	2,810,459
Equipment and Vehicles	25,759,488	1,059,123	557,169	26,261,442
Infrastructure	39,225,759	7,183,395	-	46,409,154
Totals at Historical Cost	91,161,397	8,593,103	557,169	99,197,331
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,590,158)	(167,442)	-	(6,757,600)
Improvements Other than Building	(1,544,336)	(85,072)	-	(1,629,408)
Equipment and Vehicles	(20,342,558)	(1,317,832)	(518,793)	(21,141,597)
Infrastructure	(19,131,385)	(2,057,271)	-	(21,188,656)
Total Accumulated Depreciation	(47,608,437)	(3,627,617)	(518,793)	(50,717,261)
Governmental Activities Capital Assets, net	\$ 43,552,960	\$ 4,965,486	\$ 38,376	\$ 48,480,070

Capital asset activity for primary government – business-type activities for the year ended December 31, 2011 is as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
Business-type Activities				
Non-Depreciable Assets:				
Land	\$ 730,999	\$ -	\$ -	\$ 730,999
Depreciable Assets:				
Buildings and Improvements	122,693,502	4,488,436	-	127,181,938
Improvements Other than Building	36,173,302	-	-	36,173,302
Equipment and Vehicles	37,689,093	315,627	355,176	37,649,544
Infrastructure	4,655,662	-	-	4,655,662
Totals at Historical Cost	201,942,558	4,804,063	355,176	206,391,445
Less Accumulated Depreciation for:				
Buildings and Improvements	(83,169,667)	(4,407,749)	-	(87,577,416)
Improvements Other than Building	(25,172,390)	(476,511)	-	(25,648,901)
Equipment and Vehicles	(12,365,674)	(418,262)	(319,658)	(12,464,278)
Infrastructure	(1,133,955)	(112,604)	-	(1,246,559)
Total Accumulated Depreciation	(121,841,686)	(5,415,126)	(319,658)	(126,937,154)
Business-Type Activities Capital Assets, net	\$ 80,100,872	\$ (611,063)	\$ 35,518	\$ 79,454,291

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 711,363
Public Safety	643,155
Highways and Streets	2,243,036
Economic and Community Development	30,063
Total Depreciation Expense - Governmental Activities	<u>\$ 3,627,617</u>
Business-Type Activities:	
Sewer	\$ 4,539,719
Refuse	251,605
Golf	70,707
Water	553,095
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,415,126</u>

Liabilities

Pension Plans

Plan Description – The City of Erie contributes to three single-employer defined benefit pension plans: Officers and Employees Retirement Fund, Firefighter’s Pension Plan, and Police Relief and Pension Plan. Each plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments (COLAs) to plan members and beneficiaries. Each plan issues a stand-alone financial report that includes financial statements and required supplementary information for that plan. Those statements can be obtained from the administrative office of the Plan or from the City Controller's office in the Municipal Building.

Funding Policy and Annual Pension Cost – 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). The City’s annual pension cost for the current year and related information for each plan is as follows:

	<u><i>Officers and Employees Retirement Plan</i></u>	<u><i>Police Relief and Pension Association</i></u>	<u><i>Firemen's Pension Fund</i></u>
Contribution rates:			
City	13.8%	21.8%	29.6%
Plan Members	6.8%	5.5%	6.0%
Annual Pension Cost	\$ 3,483,983	\$ 3,326,629	\$ 3,110,528
Contributions Made	\$ 3,142,218	\$ 3,326,629	\$ 3,110,528

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Actuarial Methods and Assumptions – The following is information as of the most recent actuarial valuation:

	<i>Officers and Employees Retirement Plan</i>	<i>Police Relief and Pension Association</i>	<i>Firemen's Pension Fund</i>
Actuarial Valuation Date	1/1/11	1/1/11	1/1/11
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed
Remaining Amortization Period	25 years	16 years	13 years
Asset Valuation Method	Act 44 of 2009 Asset Technique	Act 44 of 2009 Asset Technique	Act 44 of 2009 Asset Technique
Actuarial Assumptions:			
Investment Rate of Return	8.0% per annum	8.0% per annum	8.0% per annum
Projected Salary Increases	5.0% per annum	5.0% per annum	5.0% per annum
Cost of Living Adjustments			
Members Hired Before 1/1/1981	Not applicable	2.5% per annum	4.0% per annum
Members Hired After 1/1/1981	Not applicable	4.0% per annum	4.0% per annum

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Officers and Employees Retirement Plan			
12/31/09	\$ 3,278,202	106%	\$ -
12/31/10	3,278,202	105%	-
12/31/11	3,142,218	90%	-
Police Relief and Pension Association			
12/31/09	\$ 3,463,430	100%	\$ -
12/31/10	3,520,138	100%	-
12/31/11	3,326,629	100%	-
Firemen's Pension Fund			
12/31/09	\$ 3,103,412	100%	\$ -
12/31/10	3,176,285	100%	-
12/31/11	3,110,528	100%	-

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Funded Status and Funding Progress – The following is funded status information for each plan as of 1/1/11, the most recent actuarial valuation date (in millions):

	<i>Actuarial Value of Assets</i>	<i>Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
Officers and Employees Retirement Plan	\$ 76.5	\$ 93.7	\$ 17.1	81.7%	\$ 15.3	111.9%
Police Relief and Pension Association	78.4	107.8	29.4	72.7%	12.2	241.5%
Firemen's Pension Fund	59.9	84.8	24.8	70.7%	9.2	269.6%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL benefits.

Deferred Compensation Plan

Plan Description - 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. At December 31, 2011, there were 438 active participants. Total contributions into the plans for 2011 were \$2,826,878.

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

In accordance with Statement of Governmental Accounting Standards (GASB) No. 31, investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The carrying value and fair value of investments maintained in trust is \$28,316,269 at December 31, 2011. Gains (losses) on unrealized appreciation (depreciation) of investments' fair value above (below) cost are recognized in the period of appreciation (depreciation). All amounts of compensation deferred under these plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Risk Management

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

The Employees' Health Benefit Plan is a modified, self-insurance program for insuring hospitalization and medical costs. The program is limited to losses of \$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, 2011 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 2011, 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.

Unpaid Claims Liabilities - Workers' Compensation – The following represents the changes in approximate aggregate liabilities for the City from January 1, 2011 to December 31, 2011:

	<u>2011</u>
Accrued Worker's Compensation, January 1	\$ 914,635
Current Year Claims	392,046
Claim Payments	(267,501)
Accrued Worker's Compensation, December 31	<u>\$ 1,039,180</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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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.

The minimum annual lease payments required for the next five years as of December 31, 2011 are as follows:

2012	\$	5,258,775
2013		5,291,459
2014		5,334,653
2015		5,520,025
2016		5,591,292
	\$	<u>26,996,204</u>

The lease rental payment for 2011 was \$6,533,059.

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, 2011.

The remaining lease payments as of December 31, 2011 are as follows:

	2012	\$	119,311
	2013		119,312
Minimum Lease Obligation		\$	<u>238,623</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Long-Term Debt – General obligation notes and bonds are direct general obligations of the City. Principal and interest payments are backed by the full faith, credit and taxing power of the City. Under Commonwealth of Pennsylvania Local Government Unit Debt Act limitations, the City may incur up to \$208,720,614 of non-electoral indebtedness.

General Obligation Bonds

On October 21, 1998, the City issued \$72,063,606 principal amount of Tax-Exempt General Obligation Bonds, Series of 1998B, (the "1998B Bonds"). The 1998B Bonds in the principal amount of \$39,133,606 were issued for the purpose of providing funds for refunding certain of the City's general obligation bonds, funding capital projects, and paying the costs of issuing the 1998B Bonds. The 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 1998B Bonds will be paid to the registered owners, when due, upon surrender of the 1998B 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, 2011 is \$35,922,898. Outstanding principal, including compounded accreted value, of the 1998B Bonds in the amount of \$10,058,411 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 \$25,864,487 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 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 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 2001B Bonds and the 2001C Bonds maturing on November 15, 2002 through and including November 15, 2008 were issued as current interest bonds and will bear interest at varying rates from 3.30% to 6.625% from January 15, 2001. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 2001. The 2001C Bonds maturing on November 15, 2009 through and including November 15, 2027 were issued as capital appreciation bonds and do not pay interest currently but will accrete in value and interest will be payable at maturity.

Principal and compounded accreted value of the 2001 Bonds will be paid to the registered owners, when due, upon surrender of the 2001 Bonds to the designated Paying Agent. The 2001 Bond series E defeased \$6,910,000 maturity value of the Series C of 2001 (See below). Outstanding principal, including compounded accreted value, of the 2001B and 2001C bonds at December 31, 2011 is \$0, and \$13,867,056, respectively. A portion of the Taxable General Obligation Bonds, Series 2011, (the "2011 Bonds") was used to completely refund the 2001B Bonds. (See next page.)

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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 of refunding a portion of the City's General Obligation Bonds, Series of 1998B and paying the costs of issuing the 2001F Bonds. The 2001D Bonds, the 2001E Bonds and the 2001F Bonds maturing on November 15, 2013 through and including November 15, 2025 were issued as current interest bonds and will bear interest at varying rates from 2.50% to 6.70% from January 15, 2002. Interest is payable semiannually on May 15 and November 15 of each year, commencing May 15, 2002. Principal of the 2001D, E and F Bonds will be paid to the registered owners, when due, upon surrender of these Bonds to the designated Paying Agent. Outstanding principal of the 2001D, 2001E and 2001F bonds at December 31, 2011 is \$4,470,000, \$3,050,000; and \$10,060,000, respectively. Outstanding principal, including compounded accreted value, of the 2001E and F Bonds in the amount of \$1,342,000 and \$2,968,000, 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 \$1,708,000 and \$7,632,000 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, 2011 is \$6,300,000, and \$645,000, respectively. Outstanding principal of the 2004A and B Bonds in the amount of \$6,945,000 is being classified in the Governmental Activities Section of the Statement of Net Assets.

On August 31, 2011, the City issued \$23,335,000 principal amount of Tax-Exempt General Obligation Bonds, Series of 2011, (the "2011 Bonds"). The 2011 Bonds were issued for the purpose of funding capital projects of the City, the current refunding, to the optional redemption date of November 15, 2011, of portions of the City's General Obligation Bonds, Series of 2001B and Series of 2001E, the advance refunding, to the earlier of maturity or the optional redemption date of November 15, 2014, of portions of the City's General Obligation Bonds, Series of 2004A and Series of 2004B, and providing funds for the costs of issuing the 2011 Bonds. The 2011 Bonds, maturing on November 15, 2013 through 2026 were issued as current interest bonds and will bear interest at varying rates from 2.00% to 5.00% from August 31, 2011. Interest is payable semiannually on May 15 and November 15 of each year, commencing November 15, 2011. Principal of the Bonds will be paid by the designated Paying Agent. Outstanding principal of the 2011 Bonds in the amount of \$5,127,400 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

retirement. The remaining \$18,207,600 of the 2011 Bonds are included in the Government Activities Section of the Statement of Net Assets.

The annual debt service requirements to maturity, including principal and interest, for the General Obligation Bonds as of December 31, 2011, are as follows:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>
2012	\$ 8,600,083	\$ 6,855,621
2013	7,373,047	8,082,106
2014	7,040,560	8,301,331
2015	7,162,656	8,308,609
2016-18	23,206,926	23,300,374
2019-21	23,006,374	24,239,242
2022-24	22,191,714	24,600,394
2025-29	16,391,697	17,634,778
Total Principal and Interest	<u>114,973,057</u>	<u>121,322,455</u>
Less: Interest, Other than Accreted Interest	<u>13,233,027</u>	<u>20,534,180</u>
Total Outstanding Liability	101,740,030	100,788,275
Less: Accreted Interest	<u>22,388,458</u>	<u>22,340,467</u>
Total General Obligation Bonds	<u>\$ 79,351,572</u>	<u>\$ 78,447,808</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, 2011, the amount of defeased debt outstanding and removed from the Statement of Net Assets amounted to \$8,660,000.

Long-term liability activity for the year ended December 31, 2011 is 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>
Governmental Activities:					
Bonds, Loans and Leases Payable:					
General Obligation Bonds	\$ 98,061,206	\$ 18,207,600	\$ (14,767,400)	\$ 101,501,406	\$ 6,521,100
Leases Payable	381,966	-	(143,343)	238,623	119,311
	<u>98,443,172</u>	<u>18,207,600</u>	<u>(14,910,743)</u>	<u>101,740,029</u>	<u>6,640,411</u>
Less Bond Discount and Deferred Amount on Refunds	(24,373,482)	-	1,985,025	(22,388,457)	-
Total Bonds, Loans and Leases Payable	<u>74,069,690</u>	<u>18,207,600</u>	<u>(12,925,718)</u>	<u>79,351,572</u>	<u>6,640,411</u>
Other Liabilities:					
Compensated Absences	4,792,279	802,876	(382,047)	5,213,108	380,768
Total Other Liabilities	<u>4,792,279</u>	<u>802,876</u>	<u>(382,047)</u>	<u>5,213,108</u>	<u>380,768</u>
Governmental Activities Long-Term Liabilities	<u>\$ 78,861,969</u>	<u>\$ 19,010,476</u>	<u>\$ (13,307,765)</u>	<u>\$ 84,564,680</u>	<u>\$ 7,021,179</u>
Business-Type Activities					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 88,393,152	\$ 29,182,400	\$ (33,175,842)	\$ 84,399,710	\$ 4,275,764
	<u>88,393,152</u>	<u>29,182,400</u>	<u>(33,175,842)</u>	<u>84,399,710</u>	<u>4,275,764</u>
Less Bond Discount and Deferred Amount on Refunds	(6,127,881)	(1,099,149)	1,275,128	(5,951,902)	-
Total Bonds and Loans Payable	<u>82,265,271</u>	<u>28,083,251</u>	<u>(31,900,714)</u>	<u>78,447,808</u>	<u>4,275,764</u>
Compensated Absences	225,196	56,067	(17,953)	263,310	19,232
Business-Type Activities Long-Term Liabilities	<u>\$ 82,490,467</u>	<u>\$ 28,139,318</u>	<u>\$ (31,918,667)</u>	<u>\$ 78,711,118</u>	<u>\$ 4,294,996</u>
Component Unit:					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 35,188,261	\$ 96,190	\$ (913,375)	\$ 34,371,076	\$ 944,018
Long-Term Loans	2,503,466	-	(717,689)	1,785,777	1,123,003
	<u>37,691,727</u>	<u>96,190</u>	<u>(1,631,064)</u>	<u>36,156,853</u>	<u>2,067,021</u>
Less Bond Discount and Deferred Amount on Refunds	(1,227,448)	-	136,346	(1,091,102)	-
Total Bonds and Loans Payable	<u>36,464,279</u>	<u>96,190</u>	<u>(1,494,718)</u>	<u>35,065,751</u>	<u>2,067,021</u>
Compensated Absences	-	-	-	-	-
Component Unit Long-Term Liabilities	<u>\$ 36,464,279</u>	<u>\$ 96,190</u>	<u>\$ (1,494,718)</u>	<u>\$ 35,065,751</u>	<u>\$ 2,067,021</u>

Compensated Absences - Vested or accumulated vacation leave and sick pay that is expected to be liquidated with expendable available financial resources is reported as 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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Other Post Employment Benefits

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

Benefit provisions for the plan are 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 2011, the City paid \$1,037,704 to 73 former police officers, \$736,060 to 54 former firefighters, and \$0 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 \$1,090,399. The City implemented GASB Statement No. 45 in 2008 and has recognized the net obligation since that date in accordance with the standard. Net OPEB obligation at December 31, 2011 is \$2,893,934. 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 table on the following page 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	\$ -	\$ 1,778,339	\$ 1,261,405	\$ 3,039,744
Actual Amount Paid	-	1,037,704	736,060	1,773,764
Difference:	-	(740,635)	(525,345)	(1,265,980)
Total Unfunded Actuarial Accrued Liability (as of December 31, 2010)	16,816	8,654,111	10,278,269	18,949,196
Unfunded Actuarial Accrued Liability Additions from Current Year (as of December 31, 2011)	-	(740,635)	(525,345)	(1,265,980)
Total Unfunded Actuarial Accrued Liability (as of December 31, 2011)	<u>\$ 16,816</u>	<u>\$ 9,394,746</u>	<u>\$ 10,803,614</u>	<u>\$ 20,215,176</u>

Fund Equity

In the fund financial statements, fund balance of governmental funds is classified in five separate categories. The five categories, and their general meaning, are as follows:

Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.

Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.

Assigned – This category represents intentions of an individual or group designated by City Council to use the funds for specific purposes. Through a resolution of City Council, the designee has been delegated the responsibility to assign funds.

Unassigned – This category represents all other funds not otherwise defined.

The City's policy is to use funds in the order of the most restrictive to the least restrictive.

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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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, 2011 consisted of the individual fund receivables and payables as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Golf	\$ 699,177	\$ -
Internal Service	420,733	45,482
Debt Service	1,965,473	801,796
Capital Improvements	6,000	-
Sewer Revenue	8,825	173,265
Special Revenue	179,080	-
Refuse	42,789	27,515
Debt Service Fund:		
General	801,796	1,965,473
Capital Improvements	24,831	35,913
Golf	172,618	-
Sewer Revenue Fund:		
General	173,265	8,825
General Obligation Bond	-	87,035
Refuse Fund:		
General	27,515	42,789
Golf Fund:		
General	-	699,177
Internal Service	-	151,392
Debt Service	-	172,618
Capital Improvements Fund:		
Debt Service	35,913	-
General	-	6,000
Special Revenue	7,399	-
General Obligation Bond:		
Debt Service	-	24,831
Sewer Revenue	87,035	-
Internal Service Fund:		
General	45,482	420,733
Golf	151,392	-
Special Revenue Fund:		
General	-	179,080
Capital Improvements	-	7,399
	<u>\$ 4,849,323</u>	<u>\$ 4,849,323</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, 2011 are \$6,849,967. These bonds were partially refunded by the Variable Rate Demand Sewer Revenue Bonds, Series of 2011.

The Erie Sewer Authority's Revenue Bonds, Series of 2002, refunded the Series of 1994, to pay the costs of issuing the bonds, 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, 2011 are \$2,370,000.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series 2003, will provide resources to construct a new parking garage and various improvements and is fully insured by an independent insurance company against default. The City agreed to guaranty this component unit's 2003 Series in the form of a Guaranty Agreement whereby the City will guarantee payment of principal and interest. The insurance company's guarantee would become effective if both the Authority and the City failed to meet the obligation. Bonds outstanding at December 31, 2011 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, 2011 are \$3,930,000.

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, 2011 are \$4,615,200.

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, 2011 are \$11,410,000.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series of 2010, were issued to advance refund the Authority's Series of 1998A and 1998B bonds, to advance refund portions of the Series of 2003 and Series of 2006, and to pay the cost of various capital improvements. The City agreed to guaranty this component unit's 2010 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, 2011 are \$19,370,000.

The Erie Sewer Authority's Variable Rate Demand Sewer Revenue Bonds, Series of 2010 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, 2011 are \$15,110,000.

The Erie Sewer Authority's Variable Rate Demand Sewer Revenue Bonds, Series of 2011 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, 2011 are \$24,055,000.

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. The final payment was made during 2011, leaving a balance due from Erie Insurance of \$0 at December 31, 2011. All BUDAG loan 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, 2011 was \$1,865,625.

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 Adjustment and Restatement

HUD Programs

At December 31, 2010, long term receivables were understated by \$260,000. This restatement has the effect of increasing fund balance by \$260,000 for the HUD Programs Fund.

Subsequent Events

Subsequent to December 31, 2011, the following occurred;

- The City guaranteed debt of the Erie City Water Authority in the amount of \$8,915,618.
- The City issued \$8,700,000 in General Obligation Bonds. The purpose of the bonds is for the funding of various capital projects within the City and the refunding of previously issued and outstanding debt.
- Approving the plan of the Erie Sewer Authority for the issuance of an aggregate amount of \$33,500,000 sewer revenue bonds, series 2012.
- The City entered into a guaranty agreement with the Erie Parking Authority for the issuance by the authority of \$7,590,000 guaranteed parking revenue bonds, series 2012.

New Pronouncements

GASB has issued the following Statements, which will become effective in future years as shown below. Management has not yet determined the impact of these Statements on the City's financial statements.

GASB Statement No. 61, *"The Financial Reporting Entity."* The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

GASB Statement No. 63, *"Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position."* Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this Statement are effective for the City's December 31, 2012 financial statements.

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, 2011, the carrying amount of the Authority's deposits was \$47,561 and the bank balance was \$76,887 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, 2011, was as follows:

	<u><i>Beginning Balance</i></u>	<u><i>Increases</i></u>	<u><i>Decreases</i></u>	<u><i>Ending Balance</i></u>
Real Property	<u>\$ 4,182,116</u>	<u>\$ 32,352</u>	<u>\$ 1,873,673</u>	<u>\$ 2,340,795</u>

Note: Ending balance does not include accumulated depreciation of \$4,194.

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 17th and 18th Streets and to pay for various attorneys' fees. The properties serve as collateral for the loan. The loan bears a 3% interest rate; however, no interest has been accrued by the Authority. The Authority does not anticipate repayment of any portion of this loan within the next year; therefore the entire balance has been classified as long-term. As of December 31, 2011, the outstanding balance was \$180,000.

The second loan is a note payable to a local bank. The Authority borrowed \$84,000 in April 2008 for the purchase of a properties at 1401 and 1413 Parade Street. The term of the loan is for fifteen years and requires 180 monthly payments of \$742, which includes interest at 6.75%. The property serves as collateral for this loan. As of December 31, 2011, the outstanding balance was \$70,877.

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 days carryover and no pay will be made in lieu of unused personal days. The Authority's policy is to recognize the costs of compensated absences when actually paid to the employee. Accordingly, no liability has been recorded in the accompanying financial statements.

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 a minimum of 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 December \$169,829. Both the Authority and the covered employees made the required contributions, amounting to \$11,230 from the Authority and \$33,229 from the covered employees.

Erie Metropolitan Transit Authority

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

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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Deposits with Financial Institutions and Investments – Deposits are primarily in local financial institutions, and are also invested in the Pennsylvania 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, 2011, \$4,076,612 of the Authority's bank balance of \$4,826,612 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).

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

	<i>Fair Value</i>
Federal National Mortgage Assoc. 4.125%	\$ 52,910
Fannie Mae 1.0%	49,996
Fannie Mae 2.0%	99,993
Fannie Mae 2.0%	49,567
Fannie Mae 2.0%	50,031
FNR 2003-35 5.0%	3,541
GNR 2004-54 5.0%	1,669
FHR 147 G 7.5%	1,308
FHR 1169 G 7.0%	1,242
PA Treasurer's INVEST Program for Local Governments	298,557
Various Money Market Balances	295,801
Total	<u>\$ 904,615</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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

	<i>Estimated Useful Lives in Years</i>	<i>Balance June 30, 2010</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>		<i>Dispositions</i>	<i>Balance June 30, 2011</i>
Land	N/A	\$ 547,920	\$ 898,203	\$ -	\$ -	\$ -	\$ 1,446,123
Land Improvements	10-15	229,833	-	-	-	-	229,833
Buildings and Improvements	5-33	3,924,694	400	-	-	-	3,925,094
Buses	5-12	24,867,499	3,109,119	-	(2,182,162)	-	25,794,456
Fare Boxes	12	720,241	-	-	-	-	720,241
Vehicles and Equipment	4-7	586,765	-	-	(15,825)	-	570,940
Shop and Garage Equipment	5-12	1,096,937	62,566	553	(164,666)	-	995,390
Office Furniture and Equipment	4-10	438,578	8,188	2,705	(7,599)	-	441,872
Radio Equipment	10	529,084	16,602	-	-	-	545,686
Bus Shelters	12-15	306,177	-	-	-	-	306,177
Park and Ride	30	1,937,802	-	-	-	-	1,937,802
Intermodal Center	30	9,094,908	-	-	-	-	9,094,908
CNG Facility	30	1,620,317	-	-	-	-	1,620,317
AVL		484,612	259	-	-	-	484,871
Total		46,385,367	4,095,337	3,258	(2,370,252)	-	48,113,710
Less: Accumulated Depreciation		(25,181,863)	(3,013,354)	(3,258)	2,370,252	-	(25,828,223)
Net Investment in Transit System		\$ 21,203,504	\$ 1,081,983	\$ -	\$ -	-	\$ 22,285,487

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

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

In 1994, the Authority adopted a Non-Bargained Employees Supplemental Retirement Plan, which was implemented to provide supplemental benefits to the Authority's non-bargained employees. The plan is contributory and provides monthly payments upon retirement at age 65. Early retirement is permitted after age 52 and 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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Trend Information

	<i>Plan Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Pension Obligation (Asset)</i>
Regular Plan	04/30/09	349,546	118.47%	(273,991)
	04/30/10	395,694	102.93%	(285,602)
	04/30/11	412,236	93.97%	(260,760)
Supplemental Plan	04/30/09	73,565	107.03%	(183,059)
	04/30/10	74,424	112.91%	(192,667)
	04/30/11	98,538	106.28%	(198,856)

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 7, 2012. The line is unsecured and bears interest at the prime rate minus 1½%. There were no borrowings outstanding at June 30, 2011.

Erie Parking Authority

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

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

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

Debt Service	\$ 47,673
Debt Service Reserve	2,683,389
Construction	1,025,515
Capital Improvements	971,573
Total Restricted Assets	<u>\$ 4,728,150</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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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, 2011, the bank balance of the Authority's deposits that are exposed to custodial credit risk is \$3,291,662 and their carrying amount is \$3,294,232. 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	\$ -	\$ -	\$ 1,960,941	\$ 1,960,941
Natixis US FIN CO LLC CPDS	-	-	775,493	775,493
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,736,434</u>	<u>\$ 2,736,434</u>

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

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

Estimated useful lives are as follows:

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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

A summary of property activity for 2011 is as follows:

	<i>Balance</i>			<i>Balance</i>
	<i>December 31, 2010</i>	<i>Additions</i>	<i>Dispositions</i>	<i>December 31, 2011</i>
Land	\$ 1,887,859	\$ -	\$ -	\$ 1,887,859
Parking Facilities	47,546,599	2,077,704	-	49,624,303
Meters and Collection Equipment	963,270	-	-	963,270
Other Equipment and Vehicles	639,803	39,056	-	678,859
Total Fixed Assets	51,037,531	2,116,760	-	53,154,291
Less: Accumulated Depreciation	20,642,745	(1,371,843)	-	22,014,588
Net Fixed Assets	<u>\$ 30,394,786</u>	<u>\$ 744,917</u>	<u>\$ -</u>	<u>\$ 31,139,703</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, 2011 amounted to \$19,246.

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.

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	\$ 36,206
Total Annual Pension Cost	36,206
Contributions Made	36,206
Decrease in Net Pension Obligation	-
Net Pension Obligation Beginning of Year	-
Net Pension Obligation End of Year	<u>\$ -</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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>
12/31/2008	\$ 5,600	100.0%	\$ 5,600
12/31/2009	14,536	100.0%	14,536
12/31/2010	35,392	100.0%	35,392

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 \$33,595 in 2011. Employee contributions to the Plan amounted to \$72,936 in 2011. At December 31, 2011, the plan has \$9,689 in forfeitures available to reduce future contributions by the Authority.

Long-Term Debt– The Erie Parking Authority has entered into the following debt agreements with balances as of December 31, 2011:

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.	3,930,000
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.	4,615,200
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, 2011	34,120,200
Less: Original Issue Discount	(451,893)
Less: Deferred Amount of Refunding	(639,210)
Line of Credit	662,774
Less: Current Maturities	<u>(940,000)</u>
Total Long-Term Portion	<u><u>\$ 32,751,871</u></u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

The following summarizes the maturities due subsequent to December 31, 2011, for future debt obligation payments, including \$23,748,210 of interest:

2012	\$ 2,488,070
2013	2,527,693
2014	2,527,423
2015	2,524,198
2016	2,527,910
Thereafter	43,693,082
	<u>\$ 56,288,376</u>

During the year ended December 31, 2010, the Authority defeased portions of the Series of 1998, Series of 2003, and Series of 2006 by placing a portion of the proceeds of the Series of 2010 in an irrevocable trust with an escrow agent to provide for all future debt service payments on old bonds. As of December 31, 2011, \$3,625,000 of bonds outstanding are considered defeased.

Erie Sewer Authority (Blended)

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

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, 2011, 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:

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Disclosures Regarding Deposits and Investments:	
Deposits	\$ 10,969,500
Investments	14,653,188
Total	<u>\$ 25,622,688</u>
Balance Sheet Amounts:	
Cash and Cash Equivalents	
Unrestricted	\$ 146,963
Restricted	<u>10,822,537</u>
Total Cash and Cash Equivalents	10,969,500
Investments:	
Restricted	14,653,188
Total Investments	<u>\$ 25,622,688</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 55.

Long-Term Debt – The Erie Sewer Authority has entered into the following debt agreements as of December 31, 2011:

Sewer Revenue Bonds, Series 2002, bearing interest ranging from 2.0% to 4.125%	\$ 2,370,000
Sewer Revenue Bonds, Series A and B of 2001, bearing interest ranging from 2.25% to 5.5%	6,849,967
Sewer Revenue Bonds, Series of 2009, bearing interest ranging from 2% to 4%.	11,410,000
Sewer Revenue Bonds, Series of 2010, bearing interest ranging from 3% to 5%.	15,110,000
Sewer Revenue Bonds, Series of 2011, bearing variable interest rates.	24,055,000
Swap Liability	<u>586,959</u>
Outstanding Principal at December 31, 2011	60,381,926
Less: Current Maturities	<u>(3,595,000)</u>
Total Long-Term Portion of Debt	\$ 56,786,926
Less: Deferred Amount on Refunding	<u>(1,590,314)</u>
Total Long-Term Debt, net of deferred amounts	<u>\$ 55,196,612</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

The following summarizes the maturities due subsequent to December 31, 2011 for outstanding indebtedness of the Authority, including \$16,671,617 of interest:

2012	\$ 5,773,000
2013	5,772,459
2014	5,779,078
2015	5,909,653
2016	5,930,115
Thereafter	64,377,312
	<u>\$ 93,541,617</u>

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.

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 received the first draw on this grant in 2010 and the balance of the grant is expected to be received in 2012.

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, 2011

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>
<u>City of Erie Officers' and Employees'</u>					
January 1, 2007	\$ 58.7	\$ 69.8	\$ 11.2	\$ 14.7	75.9%
January 1, 2008		Biennial Valuation			
January 1, 2009	\$ 64.3	\$ 77.8	\$ 13.4	\$ 15.5	86.9%
January 1, 2010		Biennial Valuation			
January 1, 2011	\$ 70.5	\$ 83.2	\$ 12.7	\$ 14.7	86.3%
<u>City of Erie Police Relief and Pension Association</u>					
January 1, 2007	\$ 72.6	\$ 94.3	\$ 21.7	\$ 9.5	228.7%
January 1, 2008		Biennial Valuation			
January 1, 2009	\$ 74.3	\$ 99.8	\$ 25.5	\$ 10.6	240.1%
January 1, 2010		Biennial Valuation			
January 1, 2011	\$ 78.4	\$ 107.8	\$ 29.4	\$ 12.2	241.5%
<u>City of Erie Firemen's Pension Fund</u>					
January 1, 2007	\$ 55.5	\$ 73.8	\$ 18.2	\$ 8.7	209.6%
January 1, 2008		Biennial Valuation			
January 1, 2009	\$ 56.0	\$ 78.7	\$ 22.7	\$ 7.8	291.0%
January 1, 2010		Biennial Valuation			
January 1, 2011	\$ 59.9	\$ 84.8	\$ 24.8	\$ 9.2	269.9%

CITY OF ERIE, PENNSYLVANIA
Budget Comparison Schedule - General Fund
For the Year Ended December 31, 2011

	Original	Final	Actual Amounts*	Variance with Final Budget - Positive/ (Negative)
REVENUES				
Taxes	\$ 42,105,582	\$ 42,105,582	\$ 40,163,106	\$ (1,942,476)
Licenses and Permits	2,938,000	2,938,000	2,790,785	(147,215)
Intergovernmental	8,289,000	8,224,000	10,508,824	2,284,824
Charges for Services	386,500	451,500	435,007	(16,493)
Fines and Forfeits	1,417,000	1,417,000	1,442,452	25,452
Interest Income	110,000	110,000	35,525	(74,475)
Miscellaneous	295,000	295,000	305,892	10,892
Total Revenues	<u>55,541,082</u>	<u>55,541,082</u>	<u>55,681,591</u>	<u>140,509</u>
EXPENDITURES				
Current:				
General Government	12,773,619	13,290,056	12,083,428	1,206,628
Public Safety	37,097,718	37,097,718	36,560,120	537,598
Highways and Streets	9,400,180	8,462,472	8,582,361	(119,889)
Culture and Recreation	1,132,757	1,554,028	1,474,647	79,381
Economic and Community Development	51,450	51,450	51,077	373
Total Expenditures	<u>60,455,724</u>	<u>60,455,724</u>	<u>58,751,633</u>	<u>1,704,091</u>
Deficiency of Revenues Over Expenditures	<u>(4,914,642)</u>	<u>(4,914,642)</u>	<u>(3,070,042)</u>	<u>1,844,600</u>
OTHER FINANCING SOURCES				
Operating Transfers In	4,914,642	4,914,642	4,914,642	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources	<u>4,914,642</u>	<u>4,914,642</u>	<u>4,914,642</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	-	-	1,844,600	1,844,600
Fund Balance (Deficit), January 1, 2011	-	-	(1,704,305)	(1,704,305)
Fund Balance (Deficit), December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	140,295	<u>\$ 140,295</u>
RECONCILIATION TO GAAP BASIS FUND BALANCE				
Recognition of Accrual Basis Adjustments			10,020,329	
Fund Balance December 31, 2011			<u>\$ 10,160,624</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, 2011

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.

BUDGETARY ACCOUNTING AND CONTROL (CONTINUED)

It is necessary to include the budgetary encumbrances to reflect actual revenues and expenditures on a budgetary basis consistent with the City's legally adopted budget and/or the City's adopted ordinances for certain special revenue funds and the capital project funds.

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

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

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

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

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

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

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

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

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.

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, 2011

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	<u>BUDAG Revolving Account</u>	<u>Liquid Fuels Tax Fund</u>	<u>Paving and Sewer Revolving Fund</u>	
ASSETS				
Cash and Cash Equivalents	\$ 1,117,516	\$ 672,546	\$ 331,270	\$ 2,121,332
Receivables, (net of allowance for uncollectibles):				
Liens	-	-	58,788	58,788
Notes Receivable, (net of current obligation)	20,000	-	-	20,000
Total Assets	<u>\$ 1,137,516</u>	<u>\$ 672,546</u>	<u>\$ 390,058</u>	<u>\$ 2,200,120</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 111,503	\$ 48,474	\$ 159,977
Deferred Revenue	-	-	58,787	58,787
Total Liabilities	<u>-</u>	<u>111,503</u>	<u>107,261</u>	<u>218,764</u>
FUND BALANCES				
Nonspendable:				
Long-Term Receivables	20,000	-	-	20,000
Committed:				
	-	-	282,797	282,797
Restricted:				
Economic and Community Development	1,117,516	-	-	1,117,516
Liquid Fuels Tax	-	561,043	-	561,043
Total Fund Balances	<u>1,137,516</u>	<u>561,043</u>	<u>282,797</u>	<u>1,981,356</u>
Total Liabilities and Fund Equity	<u>\$ 1,137,516</u>	<u>\$ 672,546</u>	<u>\$ 390,058</u>	<u>\$ 2,200,120</u>

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended December 31, 2011

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	<u>BUDAG Revolving Account</u>	<u>Liquid Fuels Tax Fund</u>	<u>Paving and Sewer Revolving Fund</u>	
REVENUES				
Intergovernmental	\$ -	\$ 2,020,953	\$ 31,992	\$ 2,052,945
Interest Earnings	9,663	4,650	370	14,683
Miscellaneous	-	26,732	424	27,156
Total Revenues	<u>9,663</u>	<u>2,052,335</u>	<u>32,786</u>	<u>2,094,784</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Highways and Streets	-	2,355,031	48,473	2,403,504
Culture and Recreation	-	-	-	-
Economic and Community Development	143,918	-	-	143,918
Capital Outlay	-	-	-	-
Total Expenditures	<u>143,918</u>	<u>2,355,031</u>	<u>48,473</u>	<u>2,547,422</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(134,255)</u>	<u>(302,696)</u>	<u>(15,687)</u>	<u>(452,638)</u>
OTHER FINANCING USES				
Operating Transfers In	-	-	151,576	151,576
Operating Transfers (Out)	-	-	-	-
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>151,576</u>	<u>151,576</u>
Net Change in Fund Balance	(134,255)	(302,696)	135,889	(301,062)
Fund Balance, January 1, 2011	1,271,771	863,739	146,908	2,282,418
Fund Balance, December 31, 2011	<u>\$ 1,137,516</u>	<u>\$ 561,043</u>	<u>\$ 282,797</u>	<u>\$ 1,981,356</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, 2011

	Golf	Sewer Reserve	Total Non-Major Proprietary Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 114,235	\$ 630,514	\$ 744,749
Total Current Assets	<u>114,235</u>	<u>630,514</u>	<u>744,749</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	(1,258,626)	-	(1,258,626)
Total Capital Assets, (net)	<u>804,828</u>	<u>-</u>	<u>804,828</u>
Net Pension Asset	12,405	-	12,405
Total Non-Current Assets	<u>817,233</u>	<u>-</u>	<u>817,233</u>
Total Assets	<u>\$ 931,468</u>	<u>\$ 630,514</u>	<u>\$ 1,561,982</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 1,493	\$ -	\$ 1,493
Accrued Payroll and Related	2,740	-	2,740
Interfund Payable	1,023,187	-	1,023,187
Compensated Absences Payable	825	-	825
Due to Other Governments	278	-	278
Total Current Liabilities	<u>1,028,523</u>	<u>-</u>	<u>1,028,523</u>
Non-Current Liabilities:			
Compensated Absences Payable	10,472	-	10,472
Deferred Revenue	9,414	-	9,414
Total Non-Current Liabilities	<u>19,886</u>	<u>-</u>	<u>19,886</u>
Total Liabilities	<u>1,048,409</u>	<u>-</u>	<u>1,048,409</u>
NET ASSETS			
Invested in Capital Assets	817,233	-	817,233
Unrestricted	(934,174)	630,514	(303,660)
Total Net Assets	<u>(116,941)</u>	<u>630,514</u>	<u>513,573</u>
Total Liabilities and Net Assets	<u>\$ 931,468</u>	<u>\$ 630,514</u>	<u>\$ 1,561,982</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, 2011

	Golf	Sewer Reserve	Total Non-Major Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 396,364	\$ -	\$ 396,364
Rental Income	95,066	-	95,066
Miscellaneous	208	-	208
Total Operating Revenues	<u>491,638</u>	<u>-</u>	<u>491,638</u>
OPERATING EXPENSES			
Personnel Services	231,837	-	231,837
Other Personnel Services	59,554	-	59,554
Services and Fees	24,909	-	24,909
Utilities	27,129	-	27,129
Rent	38,130	-	38,130
Insurance	5,700	-	5,700
Materials, Supplies, and Maintenance	75,942	-	75,942
Depreciation and Amortization	70,707	-	70,707
Other Expenses	8,127	-	8,127
Total Operating Expenses	<u>542,035</u>	<u>-</u>	<u>542,035</u>
Operating Loss	<u>(50,397)</u>	<u>-</u>	<u>(50,397)</u>
NONOPERATING REVENUE			
Intergovernmental Revenue	4,000	-	4,000
Investment Earnings	180	1,254	1,434
Total Nonoperating Revenue	<u>4,180</u>	<u>1,254</u>	<u>5,434</u>
Total Income Before Transfers	<u>(46,217)</u>	<u>1,254</u>	<u>(44,963)</u>
Change in Net Assets	<u>(46,217)</u>	<u>1,254</u>	<u>(44,963)</u>
Net Assets, January 1, 2011	<u>(70,724)</u>	<u>629,260</u>	<u>558,536</u>
Net Assets, December 31, 2011	<u>\$ (116,941)</u>	<u>\$ 630,514</u>	<u>\$ 513,573</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.

Coupon Redemption – To account for reimbursement of property taxes paid in excess.

Other – To account for all other monies not listed above.

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Assets
Fiduciary Funds
December 31, 2011

	<i>Deferred Compensation</i>	<i>Officer's and Employees</i>	<i>Police</i>	<i>Firemen's</i>	<i>Total Pension Trust Funds</i>
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 63,683	\$ 3,782,170	\$ 3,966,211	\$ 7,812,064
Investments, at Fair Value					
Common Stocks	-	41,710,371	39,249,217	30,902,701	111,862,289
United States Government and Agency Obligations	-	13,697,463	11,848,544	9,208,025	34,754,032
Corporate Obligations	-	10,184,041	8,768,854	6,899,943	25,852,838
Registered Investment Companies - Mutual Funds	28,316,269	-	-	-	28,316,269
Mortgage Backed Securities	-	560,578	491,998	388,154	1,440,730
Short-Term Investments	-	3,417,279	-	-	3,417,279
Accrued Investment Income	-	235,755	211,389	162,560	609,704
Total Assets	\$ 28,316,269	\$ 69,869,170	\$ 64,352,172	\$ 51,527,594	\$ 214,065,205
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 8,967	\$ 6,992	\$ 15,959
Total Liabilities	-	-	8,967	6,992	15,959
NET ASSETS					
Held in Trust for Employees' Pension Benefits	28,316,269	69,869,170	64,343,205	51,520,602	214,049,246
	\$ 28,316,269	\$ 69,869,170	\$ 64,352,172	\$ 51,527,594	\$ 214,065,205

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	<i>Deferred Compensation</i>	<i>Officers' and Employees</i>	<i>Police</i>	<i>Firemens'</i>	<i>Total Pension Trust Funds</i>
ADDITIONS TO NET ASSETS					
Contributions					
Employer	\$ -	\$ 1,800,009	\$ 2,658,837	\$ 2,583,586	\$ 7,042,432
City of Erie Water Authority	-	307,995	-	-	307,995
Plan Members	2,826,878	1,034,214	667,792	526,942	5,055,826
Total Contributions	<u>2,826,878</u>	<u>3,142,218</u>	<u>3,326,629</u>	<u>3,110,528</u>	<u>12,406,253</u>
Investment Earnings					
Net Depreciation in Fair Value of Investments	(374,222)	(1,481,357)	(1,200,677)	(1,190,701)	(4,246,957)
Interest and Dividends	310,582	1,843,486	1,645,968	1,298,177	5,098,213
Other Investment Income	-	-	-	33,415	33,415
Less: Investment Expenses	(95,404)	(359,690)	(340,177)	(266,321)	(1,061,592)
Total Investment Earnings	<u>(159,044)</u>	<u>2,439</u>	<u>105,114</u>	<u>(125,430)</u>	<u>(176,921)</u>
Other Income	-	-	42,272	-	42,272
Total Additions To Net Assets	<u>2,667,834</u>	<u>3,144,657</u>	<u>3,474,015</u>	<u>2,985,098</u>	<u>12,271,604</u>
DEDUCTIONS FROM NET ASSETS					
Benefits Paid	1,949,523	5,358,952	6,602,827	5,070,308	18,981,610
Participant Refunds	-	71,507	1,625	-	73,132
Administrative Expenses	-	93,162	73,751	56,110	223,023
Total Deductions From Net Assets	<u>1,949,523</u>	<u>5,523,621</u>	<u>6,678,203</u>	<u>5,126,418</u>	<u>19,277,765</u>
Net Increase (Decrease) to Net Assets	718,311	(2,378,964)	(3,204,188)	(2,141,320)	(7,006,161)
NET ASSETS HELD IN TRUST					
Net Assets, January 1, 2011	<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>
Net Assets, December 31, 2011	<u>\$ 28,316,269</u>	<u>\$ 69,869,170</u>	<u>\$ 64,343,205</u>	<u>\$ 51,520,602</u>	<u>\$ 214,049,246</u>

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Assets and Liabilities - Agency Funds
December 31, 2011

	Balance at January 1, 2011	Additions	Deductions	Balance at December 31, 2011
TRAFFIC COURT SECURITY BONDS				
Assets				
Cash and Cash Equivalents	\$ 825	\$ 1,493	\$ 1,338	\$ 980
Liabilities				
Deposits Held in Trust	\$ 825	\$ 1,493	\$ 1,338	\$ 980
CABLE TELEVISION SECURITY DEPOSIT				
Assets				
Cash and Cash Equivalents	\$ 25,000	\$ -	\$ -	\$ 25,000
Liabilities				
Deposits Held in Trust	\$ 25,000	\$ -	\$ -	\$ 25,000
UNCLAIMED MONIES				
Assets				
Cash and Cash Equivalents	\$ 9,581	\$ 1,349	\$ 3,120	\$ 7,810
Liabilities				
Deposits Held in Trust	\$ 9,581	\$ 1,349	\$ 3,120	\$ 7,810
LAND LIGHTHOUSE SECURITY DEPOSIT				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ 500	\$ -
Liabilities				
Deposits Held in Trust	\$ 500	\$ -	\$ 500	\$ -
PROPERTY TAX				
Assets				
Cash and Cash Equivalents	\$ 315,062	\$ 315,064	\$ 315,062	\$ 315,064
Liabilities				
Due to Other Governments	\$ 315,062	\$ 315,064	\$ 315,062	\$ 315,064

CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)
December 31, 2011

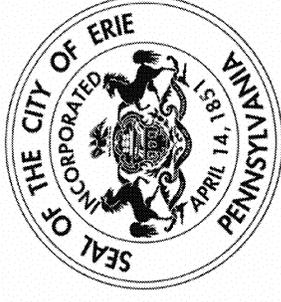
	Balance at January 1, 2011	Additions	Deductions	Balance at December 31, 2011
COMMUNITY SERVICES				
Assets				
Cash and Cash Equivalents	\$ 15,259	\$ 22,105	\$ 16,750	\$ 20,614
Liabilities				
Deposits Held in Trust	\$ 15,259	\$ 22,105	\$ 16,750	\$ 20,614
FIRE INSURANCE ESCROW				
Assets				
Cash and Cash Equivalents	\$ 141,319	\$ 283,359	\$ 227,249	\$ 197,429
Liabilities				
Deposits Held in Trust	\$ 141,319	\$ 283,359	\$ 227,249	\$ 197,429
DICKSON TAVERN RENOVATIONS				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Deposits Held in Trust	\$ 500	\$ -	\$ -	\$ 500
COUPON REDEMPTION				
Assets				
Cash and Cash Equivalents	\$ 2,461	\$ 32,017	\$ 33,787	\$ 691
Liabilities				
Deposits Held in Trust	\$ 2,461	\$ 32,017	\$ 33,787	\$ 691
OTHER				
Assets				
Cash and Cash Equivalents	\$ 1,376,287	\$ 86,449,698	\$ 87,825,985	\$ -
Liabilities				
Deposits Held in Trust	\$ 1,376,287	\$ 86,449,698	\$ 87,825,985	\$ -
TOTALS - ALL AGENCY FUNDS				
Assets				
Cash and Cash Equivalents	\$ 1,886,794	\$ 87,105,085	\$ 88,423,791	\$ 568,088
Liabilities				
Deposits Held in Trust	\$ 195,445	\$ 340,323	\$ 282,744	\$ 253,024
Due to Other Governments	\$ 1,691,349	\$ 86,764,762	\$ 88,141,047	\$ 315,064
Total Liabilities	\$ 1,886,794	\$ 87,105,085	\$ 88,423,791	\$ 568,088

STATISTICAL SECTION

CITY OF ERIE, PENNSYLVANIA

Net Assets by Component

2011

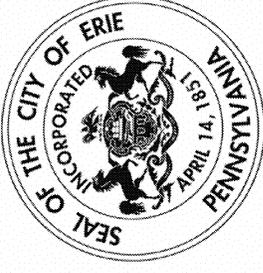


	2009	2010	2011
Governmental activities			
Invested in capital assets, net of related debt	(24,454,275)	(18,761,730)	(26,401,502)
Restricted	21,793,015	17,986,295	18,848,626
Unrestricted	6,962,741	9,204,027	26,389,234
Total governmental activities net assets	<u>4,301,481</u>	<u>8,428,592</u>	<u>18,836,358</u>
Business-type activities			
Invested in capital assets, net of related debt	14,519,796	3,776,511	6,676,555
Restricted	14,346,798	29,590,724	26,560,700
Unrestricted	733,246	(1,911,924)	(1,703,195)
Total business-type activities net assets	<u>29,599,840</u>	<u>31,455,311</u>	<u>31,534,060</u>
Primary government			
Invested in capital assets, net of related debt	7,801,650	(14,985,219)	(19,724,947)
Restricted	36,139,813	47,577,019	45,409,326
Unrestricted	7,695,987	7,292,103	24,686,039
Total primary government net assets	<u>51,637,450</u>	<u>39,883,903</u>	<u>50,370,418</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA

Changes in Net Assets
2011



	2009	2010	2011
Expenses			
Governmental activities:			
General government	24,235,712	18,580,824	15,631,070
Public Safety	30,296,276	33,934,986	35,029,143
Highways and streets	6,537,013	9,397,287	10,876,880
Sanitation	-	371,341	-
Culture and Recreation	1,521,079	1,396,870	1,563,239
Economic and Community Development	5,052,733	6,534,114	2,096,077
Bond Issue and Other Related Costs	-	-	419,324
Other	-	141,960	31,879
Interest on long-term debt	4,375,547	5,570,820	4,886,870
Total governmental activities expenses	<u>\$ 72,018,360</u>	<u>\$ 75,928,202</u>	<u>\$ 70,534,482</u>
Business-type activities:			
Sewer	26,750,283	25,319,321	27,285,487
Water	554,756	554,755	553,095
Refuse	4,799,527	4,716,527	5,076,654
Other Proprietary Funds	770,464	590,217	542,035
Total business-type activities expenses	<u>\$ 32,875,030</u>	<u>\$ 31,180,820</u>	<u>\$ 33,457,271</u>
Total primary government expenses	<u>\$ 104,893,390</u>	<u>\$ 107,109,022</u>	<u>\$ 103,991,753</u>
Program Revenues			
Governmental activities:			
Program revenues:			
Charges for services	425,487	443,899	439,171
Operating grants and contributions	19,852,816	22,692,296	22,270,280
Total governmental activities program revenues	<u>\$ 20,278,303</u>	<u>\$ 23,136,195</u>	<u>\$ 22,709,451</u>
Business-type activities:			
Program revenues:			
Charges for services:	28,899,904	33,379,158	34,275,972
Operating grants and contributions	-	-	-
Total business-type activities program revenues	<u>\$ 28,899,904</u>	<u>\$ 33,379,158</u>	<u>\$ 34,275,972</u>
Total primary government program revenues	<u>\$ 49,178,207</u>	<u>\$ 56,515,353</u>	<u>\$ 56,985,423</u>

Net (Expense)/Revenue				
Governmental activities	(51,740,057)	(52,792,007)	(47,825,031)	
Business-type activities	(3,975,126)	2,198,338	818,701	
Total primary government net expense	<u>\$ (55,715,183)</u>	<u>\$ (50,593,669)</u>	<u>\$ (47,006,330)</u>	

General Revenues and Other Changes in Net Assets

Governmental activities:			
Taxes			
Property Taxes, General Purposes	25,779,221	27,878,519	25,740,804
Property Taxes, Debt Service	4,682,294	3,884,634	4,437,312
Income Taxes	12,768,629	12,829,246	15,457,013
Other taxes	871,530	971,528	970,805
Licenses and permits	3,251,589	2,565,151	2,771,535
Fines and penalties	1,326,274	1,734,819	2,213,147
Investment earnings	1,196,943	1,319,303	313,397
Transfers	4,886,274	5,198,433	5,366,499
Miscellaneous	394,152	537,485	702,291
Total governmental activities	<u>\$ 55,156,906</u>	<u>\$ 56,919,118</u>	<u>\$ 57,972,803</u>
Business-type activities:			
Investment earnings	392,522	458,847	412,567
Lease Rental	2,971,729	3,095,955	3,225,772
Capital asset gains/(loss)	1,928,955	-	-
Miscellaneous	701,234	1,300,764	988,106
Transfers	(4,886,274)	(5,198,433)	(5,366,499)
Total business-type activities	<u>\$ 1,108,166</u>	<u>\$ (342,867)</u>	<u>\$ (740,054)</u>
Total primary government	<u>\$ 56,265,072</u>	<u>\$ 56,576,251</u>	<u>\$ 57,232,749</u>

Change in Net Assets

Governmental activities	3,416,849	4,127,111	10,147,772
Business-type activities	(2,866,960)	1,855,471	78,647
Total primary government	<u>\$ 549,889</u>	<u>\$ 5,982,582</u>	<u>\$ 10,226,419</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
Fund Balances
2011



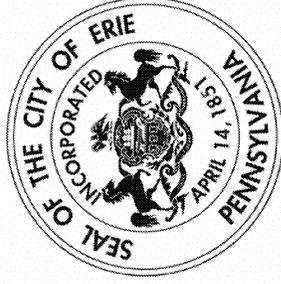
	2009	2010	2011
General Fund			
Assigned	-	-	2,175,774
Restricted	1,081,826	784,493	1,491,276
Unassigned	1,629,178	4,176,809	6,493,574
Total general fund	<u>\$ 2,711,004</u>	<u>\$ 4,961,302</u>	<u>\$ 10,160,624</u>
All Other Governmental Funds			
Nonspendable	-	-	16,357,350
Committed	-	-	282,797
Restricted	16,996,308	16,126,659	19,597,759
Unassigned	14,092,171	11,943,232	(3,715,961)
Total all other governmental funds	<u>\$ 31,088,479</u>	<u>\$ 28,069,891</u>	<u>\$ 32,521,945</u>

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA

Changes in Fund Balances

2011



	2009	2010	2011
Revenues			
Taxes	\$ 42,382,436	\$ 42,492,941	\$ 44,944,153
Licenses and permits	\$ 3,053,789	\$ 2,762,951	\$ 2,771,535
Intergovernmental	\$ 18,139,712	\$ 20,316,101	\$ 19,981,023
Charges for Services	\$ 425,487	\$ 443,899	\$ 439,171
Fines and penalties	\$ 1,326,274	\$ 1,421,604	\$ 1,440,853
Investment earnings	\$ 1,176,460	\$ 1,317,880	\$ 309,331
Payment in Lieu of Taxes	\$ 947,592	\$ 910,106	\$ 896,365
Miscellaneous	\$ 377,985	\$ 519,981	\$ 711,929
Total Revenues	<u>\$ 67,829,735</u>	<u>\$ 70,185,463</u>	<u>\$ 71,494,360</u>
Expenditures			
Current:			
General government	\$ 8,228,096	\$ 7,918,476	\$ 8,184,277
Public Safety	\$ 36,746,465	\$ 36,394,189	\$ 37,016,985
Highways and streets	\$ 12,100,520	\$ 12,537,722	\$ 15,196,578
Sanitation	\$ 177,608	\$ 487,770	\$ -
Culture and Recreation	\$ 1,857,320	\$ 1,422,328	\$ 1,563,239
Economic and Community Development	\$ 5,769,042	\$ 9,049,692	\$ 4,145,305
Capital Outlay	\$ 19,123	\$ 165,693	\$ 1,951,553
Debt Service:			
Principal	\$ 5,803,126	\$ 5,606,021	\$ 6,042,129
Interest	\$ 2,834,957	\$ 2,570,295	\$ 1,973,667
Total Expenditures	<u>\$ 73,536,257</u>	<u>\$ 76,152,186</u>	<u>\$ 76,073,733</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(5,706,522)</u>	<u>(5,966,723)</u>	<u>(4,579,373)</u>

Other Financing Sources and (Uses)

Operating Transfers In	\$ 5,284,621	\$ 7,615,918	\$ 5,610,089
Operating Transfers (Out)	\$ (398,349)	\$ (2,417,485)	\$ (243,590)
Original Bond Issuance Costs	\$ -	\$ -	\$ (546,128)
Other Bond-Related Expenditures	\$ -	\$ -	\$ (384,622)
Refunded Payment to Escrow	\$ -	\$ -	\$ (8,672,600)
Proceeds from Refunding Long-Term Debt	\$ -	\$ -	\$ 8,672,600
Proceeds from General Long-Term Debt	\$ -	\$ -	\$ 9,535,000
Total Other Financing Sources and (Uses)	\$ 4,886,272	\$ 5,198,433	\$ 13,970,749

Net Change in Fund Balances

(820,250)

(768,290)

9,391,376

Debt service as a % of noncapital expenditures

11.75%

10.76%

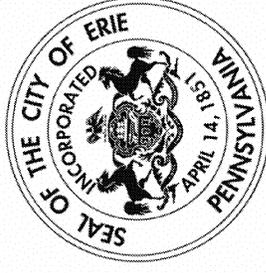
10.81%

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA

Assessed Value and Estimated Actual Value of Taxable Property

2011



Fiscal Year	Residential Property	Commercial Property	Industrial Property	Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2009	1,844,686,065	611,783,191	95,094,580	1,055,517,035	2,551,563,886	\$ 11.45
2010	1,842,504,645	583,492,507	94,928,870	1,074,893,447	2,520,925,742	\$ 11.45
2011	1,840,457,190	576,756,029	94,310,970	1,077,606,028	2,511,533,854	\$ 11.45

Source: City of Erie Treasurer's Office

CITY OF ERIE, PENNSYLVANIA
 Direct and Overlapping Property Tax Rates
 2011
 (rate per \$1,000 of assessed value)



City Direct Rates

<u>Fiscal Year</u>	<u>Basic Rate</u>	<u>General Obligation Debt Service</u>	<u>Total Direct Rate</u>
2009	\$9.69	\$1.76	\$11.45
2010	\$10.05	\$1.40	\$11.45
2011	\$9.85	\$1.60	\$11.45

Overlapping Rates

<u>Erie School District</u>	<u>Erie County</u>
\$17.0687	\$5.45
\$17.0687	\$6.05
\$17.8026	\$6.05

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Principal Property Tax Payers
 2011



<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Baldwin Bros et al	29,848,470	1.19%
Erie Insurance	18,995,650	0.76%
Levin, Adam et al	9,892,450	0.39%
Four C's LLS	8,597,500	0.34%
Bayside Development	8,188,000	0.33%
Missouri River Corp	7,400,000	0.29%
Penelec	7,197,350	0.29%
Lord Corp	7,107,060	0.28%
Inland SE	6,510,000	0.26%
Palermo, Joseph	5,719,280	0.23%
	\$ 109,455,760	4.36%

Source: Erie County Assessment Office

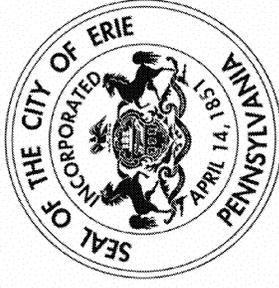
CITY OF ERIE, PENNSYLVANIA
 Property Tax Levies and Collections
 2011



Fiscal Year	Taxes Levied in Fiscal Year	Collected within Fiscal Year	Percentage of Levy	Collections in Subsequent Years	Total Collections to Date	Percentage of Levy
2009	\$ 28,891,594	\$ 26,027,197	90.09%	\$ 1,004,835	\$ 27,032,032	93.56%
2010	\$ 28,864,600	\$ 25,848,432	89.55%	\$ 2,719,942	\$ 28,568,374	98.97%
2011	\$ 28,757,063	\$ 25,733,101	89.48%	\$ -	\$ 25,733,101	89.48%

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

CITY OF ERIE, PENNSYLVANIA
Ratios of Outstanding Debt by Type
2011



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			
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
2011	\$ 79,351,572	\$ -	\$ 19,556,686	\$ -	\$ 98,908,258	2.99%	\$ 971.53

Source: City of Erie Finance Office

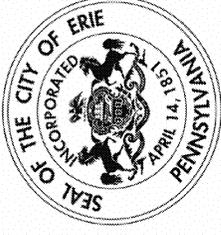
CITY OF ERIE, PENNSYLVANIA
 Ratios of General Bonded Debt Outstanding
 2011



<u>General Bonded Debt Outstanding</u>					
Fiscal Year	General Obligation Bonds	Other Bonds (Revenue, Special Assessment, etc.)	Total	Percentage of Actual Taxable Value of Property	Per Capita
2009	\$ 97,454,813	\$ -	\$ 97,454,813	3.86%	\$ 940.95
2010	\$ 93,543,852	\$ -	\$ 93,543,852	3.71%	\$ 919.02
2011	\$ 98,908,258	\$ -	\$ 98,908,258	3.94%	\$ 971.53

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Direct and Overlapping Governmental Activities Debt
 2011



Governmental Unit	Debt Outstanding 2010	Less: Amounts Available in Debt Service Fund 2011	Classified as Proprietary Fund Use	Classified as General Fund Use	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt Total 2011
City of Erie 1998 General Obligation Bond (B)	34,333,631	(1,589,267)	10,058,411	25,864,487	100.00%	35,922,898
2001 General Obligation Bond (B)	4,630,000	4,630,000	-	-	100.00%	-
2001 General Obligation Bond (C)	13,141,504	(725,552)	-	13,867,056	100.00%	13,867,056
2001 General Obligation Bond (D)	8,420,000	3,950,000	-	4,470,000	100.00%	4,470,000
2001 General Obligation Bond (E)	13,485,000	10,435,000	1,342,000	1,708,000	100.00%	3,050,000
2001 General Obligation Bond (F)	11,050,000	450,000	2,968,000	7,632,000	100.00%	10,600,000
2004 General Obligation Bond (A)	6,685,000	385,000	-	6,300,000	100.00%	6,300,000
2004 General Obligation Bond (B)	1,000,000	355,000	-	645,000	100.00%	645,000
2011 General Obligation Bond	-	-	5,127,400	18,207,600	100.00%	23,335,000
Leases	381,966	143,343	-	238,623	100.00%	238,623
Total City Direct Debt	\$ 93,127,101	\$ 18,033,524	\$ 19,493,811	\$ 78,932,766	100.00%	\$ 98,428,577
County of Erie	\$ 81,876,276	\$ 5,993,824	\$ -	\$ 75,882,452	40.00%	\$ 30,352,381
Erie School District	\$ 105,143,876	\$ 2,540,530	\$ -	\$ 102,603,346	100.00%	\$ 102,603,346
Erie Sewer Authority	\$ 61,997,980	\$ 3,693,817	\$ -	\$ 58,304,163	70.00%	\$ 40,812,914
Erie Parking Authority	\$ 33,470,510	\$ 818,149	\$ -	\$ 32,652,361	100.00%	\$ 32,652,361
Erie Water Authority	\$ 190,464,729	\$ -	\$ -	\$ 190,464,729	70.00%	\$ 133,325,310
Total Overlapping Debt	\$ 472,953,371	\$ 13,046,320	\$ -	\$ 459,907,051	70.00%	\$ 339,746,912
Total Direct and Overlapping Debt						\$ 438,175,489

Source: City of Erie Finance Office

CITY OF ERIE, PENNSYLVANIA
 Computation of Legal Debt Margin
 2011



Nonelectoral Debt Incurring Capacity:

Borrowing base(1)	\$	87,268,390
Percentage limitation		250
Net nonelectoral debt limit	\$	218,170,975
Less: net nonelectoral debt incurred		98,428,577
Add: current principal appropriation		6,493,213
Remaining nonelectoral debt incurring capacity	\$	126,235,611

Nonelectoral Plus Lease Rental Debt Incurring Capacity:

Borrowing base(1)	\$	87,268,390
Percentage limitation		350
Net nonelectoral plus lease rental debt limit	\$	305,439,365
Less: net nonelectoral debt plus lease rental debt incurred		189,385,101
Add: current principal appropriation		11,028,213
Remaining nonelectoral plus lease rental debt incurring capacity	\$	127,082,477

(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

2011



Year:	2009	2010	2011
Population*	103,571	101,786	101,807
Personal Income (thousands of dollars)	3,339,543	3,319,750	3,303,128
Median Household Income(dollars)	32,244	32,615	32,445
Median Age	34.1	33.2	34.8
High School Graduate, % of persons age 25+	84.5	86.8	85.4
Bachelor's degree or higher, % of persons age 25+	18.4	19.4	19.5
Unemployment Rate	9.00%	9.40%	8.00%

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 estimates based on the last census conducted in 2010.

CITY OF ERIE, PENNSYLVANIA

Principal Employers

2011



Employer	Industry	Employees	**Percentage of Total MSA Employment
*General Electric Company	Locomotives, DC Motors, Generators	5,300	4.06%
Erie Insurance Group	Insurance, Risk Management	4,300	3.30%
UPMC Hamot	Healthcare	3,400	2.61%
Saint Vincent Health Center	Health Care	3,000	2.30%
*Wal-Mart	Department Store Chain	1,600	1.23%
Barber National Institute	Special Education Facility	1,500	1.15%
Erie School District	Public School Facility	1,300	1.00%
Verizon	Public Utility, Telephone Service	1,200	0.92%
*Scott Enterprises	Restaurants and Hotel Chains	1200	0.92%
*Millcreek Township School District	Educational	900	0.69%

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
2011



Function/Department	Full-time Employees		
	2009	2010	2011
General Government			
Administration	19	19	19
Controller's Office	3	3	3
Treasurer's Office	6	6	6
Finance & Purchasing	11	11	11
Economic and Community Development	14	14	14
Other	11	11	11
Police			
Officers	167	173	173
Civilians	36	26	26
Fire			
Firefighters and Officers	133	135	135
Civilians	17	4	4
Public Works			
Code Enforcement	14	14	14
Engineering	7	6	6
Streets	47	47	47
Parks & Recreation	11	11	11
Golf	2	2	2
Refuse	31	32	32
Sewer	88	88	89
Other	32	37	37
Total:	649	639	640

Source: City of Erie Finance Office