

CITY OF ERIE, PENNSYLVANIA

Annual Financial Report



Prepared By:  
Department of Administration and Finance

This Page Intentionally Left Blank

# CITY OF ERIE, PENNSYLVANIA

## Annual Financial Report

Year Ended December 31, 2012

### Table of Contents

#### INTRODUCTORY SECTION:

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

#### FINANCIAL SECTION:

INDEPENDENT AUDITOR'S REPORT .....	3
------------------------------------	---

#### REQUIRED SUPPLEMENTARY INFORMATION:

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

#### BASIC FINANCIAL STATEMENTS:

#### Statement

##### *Government-wide Financial Statements:*

1	Statement of Net Position .....	15
2	Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds .....	16
3	Statement of Activities .....	17

##### *Fund Financial Statements:*

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

#### REQUIRED SUPPLEMENTARY INFORMATION:

1	Schedule of Funding Progress – Defined Benefit Retirement Plan .....	77
2	Budget Comparison Schedule – General Fund .....	78
3	Notes to Required Supplementary Information On Budgetary Accounting And Control .....	79

OTHER SUPPLEMENTARY INFORMATION:

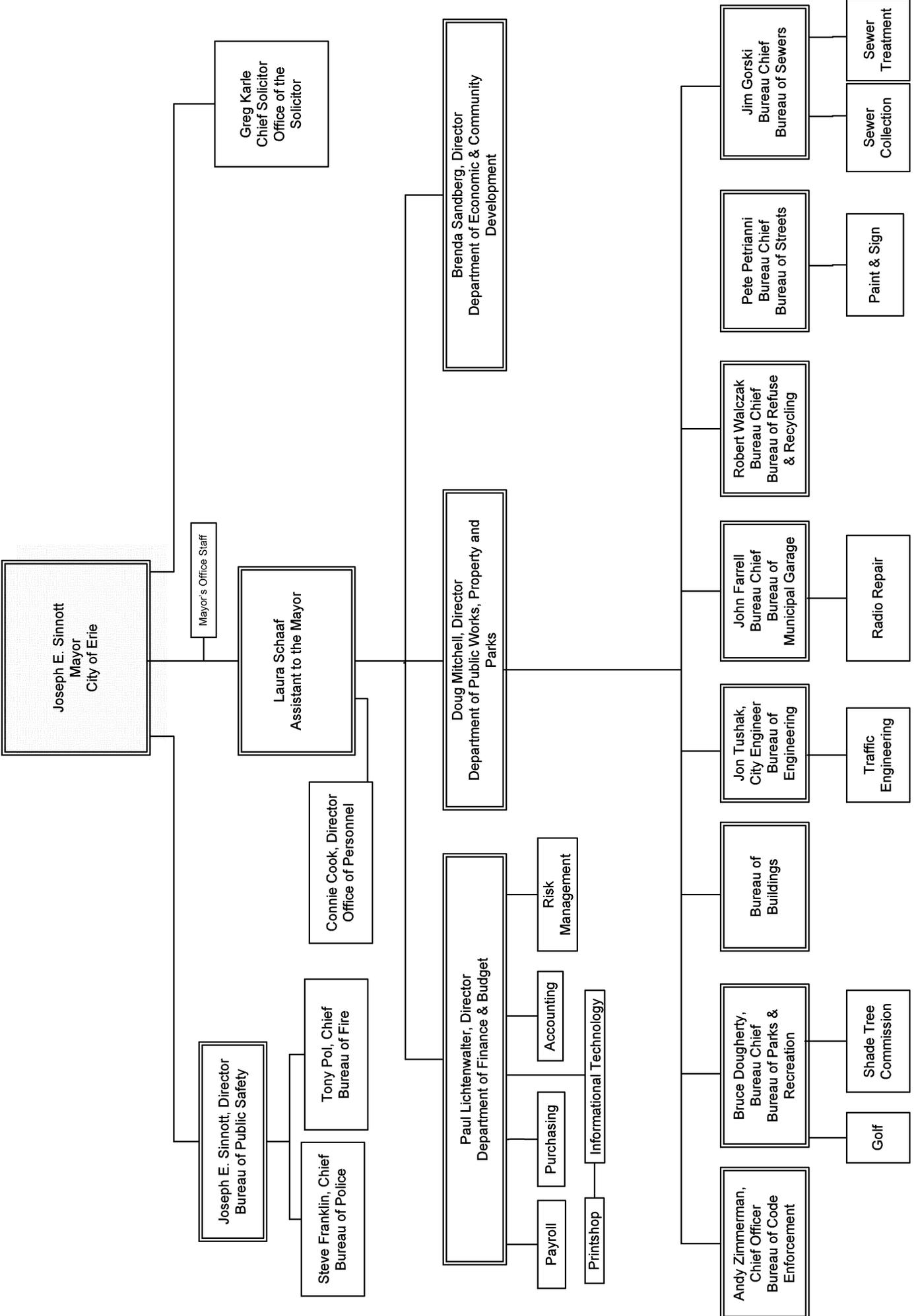
1	Combining Balance Sheet – Non-Major Governmental Funds.....	81
2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds.....	82
3	Combining Statement of Net Position – Non-Major Proprietary Funds.....	83
4	Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Non-Major Proprietary Funds.....	84
5	Combining Statement of Net Position – Fiduciary Funds.....	85
6	Combining Statement of Changes in Net Position – Fiduciary Funds.....	86
7	Combining Statement of Changes in Assets and Liabilities – Agency Funds.....	87

STATISTICAL SECTION:

General Fund:

Net Position by Component .....	89
Changes in Net Position .....	90
Fund Balances of Governmental Funds .....	91
Changes in Fund Balances of Governmental Funds .....	92
Assessed Value and Estimated Actual Value of Taxable Property .....	93
Property Tax Rates - Direct and Overlapping Property Tax Rates .....	94
Principal Property Tax Payers .....	95
Property Tax Levies and Collections .....	96
Ratios of Outstanding Debt by Type .....	97
Ratios of General Bonded Debt Outstanding.....	98
Direct and Overlapping Governmental Activities Debt.....	99
Legal Debt Margin Information .....	100
Demographic and Economic Statistics .....	101
Principal Employers.....	102
Full-Time City Government Employees by Function .....	103





**CITY OF ERIE, PENNSYLVANIA**

Comprehensive Annual Financial Report  
Year ended December 31, 2012

**PRINCIPAL CITY OFFICIALS**

**MAYOR**

Joseph E. Sinnott

**CITY COUNCIL**

David Brennan

Robert Merski

John Evans

James Winarski

Jessica Horan-Kunco

Melvin Witherspoon

Curtis Jones, Jr.

**CITY OFFICIALS**

Susan E. Divecchio.....City Treasurer

Casimir J. Kwitowski.....City Controller

Gregory Karle.....City Solicitor

James E. Klemm.....City Clerk

Paul Lichtenwalter.....Director, Department of Administration & Finance

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

Brenda Sandberg.....Director, Department of Economic and Community Development





1920 West 8<sup>th</sup> Street  
Erie, PA 16505  
814.453.6594  
Fax: 814.455.3642

## 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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%, 36%, and 20%, respectively, of the assets, net assets, and revenues of the City. Those 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the report 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedule of funding progress, and the budgetary comparison – general fund, on pages 5–14, 77, and 78, respectively, be presented to supplement the basic financial statements. Such information, although not a 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.

*Other Information*

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. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

*McGill, Power, Bell & Associates, LLP*

**McGill, Power, Bell & Associates, LLP**  
Erie, Pennsylvania  
February 7, 2014

**CITY, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

As management of the City of Erie, Pennsylvania (the "City"), we offer readers of the City's Annual Financial Report this narrative overview and analysis of the financial activities of the City (the "Primary Government") for the year ended December 31, 2012. 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 position 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 position at the close of the fiscal year of \$54.8 million. This represents an increase of 8.5% over last fiscal year's restated net position of \$50.5 million.
- During the year, the City had governmental expenses that were \$11.6 million less than the \$78.3 million generated in tax and other revenues for governmental programs. This compares to last year, when expenses were less than revenues by \$10.3 million.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of \$48.9 million. Within this total \$17.5 million is non-spendable and committed, \$2.2 million is assigned, \$19.3 million is restricted, and \$9.9 million is unassigned.
- In the City's business-type activities, operating revenues and expenses have remained consistent, with operating revenues increasing by \$63 thousand (or 0.2%) while operating expenses increased by \$8.5 million (or 25%).
- The general fund reported a surplus this year of \$2.8 million. As result of the surplus, the fund balance for general fund ended the year with a positive \$12.9 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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. 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 Position 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 the time of termination). Both the Statement of Net Position 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 Position 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 Position 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, and the Capital Improvements Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated non-major fund presentation. Individual fund data from each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

- *Proprietary Funds* – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position 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 Position and Changes in Fiduciary Net Position. 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 position was a positive \$54.8 million (excess of total assets over total liabilities) as of December 31, 2012. Analyzing the net assets of governmental and business-type activities separately, the governmental activities are \$30.6 million and business-type activities are \$24.2 million. The analyses on page 9 and 10 focus on the net position (table 1) and changes in net position (table 2) of the City's governmental and business-type activities.

The largest portion of the City's total assets (57.7%) 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**

	<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>2012</i>	<i>2011</i>		<i>2012</i>	<i>2011</i>		<i>2012</i>	<i>2011</i>	
Current and other assets	\$ 67,064	\$ 68,116	-2%	\$ 31,313	\$ 40,668	-23%	\$ 98,377	\$ 108,784	-10%
Capital assets	53,179	48,480	10%	81,021	79,454	2%	134,200	127,934	5%
Total assets	<u>120,243</u>	<u>116,596</u>	3%	<u>112,334</u>	<u>120,122</u>	-6%	<u>232,577</u>	<u>236,718</u>	-2%
Current and other liabilities	25,709	28,297	-9%	16,053	15,080	6%	41,762	43,377	-4%
Long-term liabilities	63,938	69,285	-8%	72,045	73,508	-2%	135,983	142,793	-5%
Total liabilities	<u>89,647</u>	<u>97,582</u>	-8%	<u>88,098</u>	<u>88,588</u>	-1%	<u>177,745</u>	<u>186,170</u>	-5%
Net position:									
Invested in capital assets, net of related debt	(18,044)	(26,402)	-32%	11,223	6,676	68%	(6,821)	(19,726)	-65%
Restricted	19,663	18,849	4%	18,566	26,561	-30%	38,229	45,410	-16%
Unrestricted	28,977	26,567	9%	(5,553)	(1,703)	226%	23,424	24,864	-6%
Total net position	<u>\$ 30,596</u>	<u>\$ 19,014</u>	61%	<u>\$ 24,236</u>	<u>\$ 31,534</u>	-23%	<u>\$ 54,832</u>	<u>\$ 50,548</u>	8%

**Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given. The format for the Statement of Activities 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 on page 11, 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 Position  
 (amounts expressed in thousands)

	<i>Governmental Activities</i>		% Inc (Dec)	<i>Business-Type Activities</i>		% Inc (Dec)	<i>Total</i>		% Inc (Dec)
	<i>2012</i>	<i>2011</i>		<i>2012</i>	<i>2011</i>		<i>2012</i>	<i>2011</i>	
<b>Revenues</b>									
<b>Program Revenues:</b>									
Charges for services	\$ 2,746	\$ 439	526%	\$ 34,159	\$ 34,276	0%	\$ 36,905	\$ 34,715	6%
Grants and Contributions	17,535	22,270	-21%	-	-	0%	17,535	22,270	-21%
<b>General revenues:</b>									
Property tax	31,656	30,178	5%	-	-	0%	31,656	30,178	5%
Income tax	14,573	15,457	-6%	-	-	0%	14,573	15,457	-6%
Other	948	972	-2%	-	-	0%	948	972	-2%
Other general revenues	10,883	6,000	81%	4,680	4,626	1%	15,563	10,626	46%
<b>Total revenues</b>	<b>78,341</b>	<b>75,316</b>	<b>4%</b>	<b>38,839</b>	<b>38,902</b>	<b>0%</b>	<b>117,180</b>	<b>114,218</b>	<b>3%</b>
<b>Expenses</b>									
General government	16,503	15,453	7%	-	-	0%	16,503	15,453	7%
Public safety	33,241	35,029	-5%	-	-	0%	33,241	35,029	-5%
Highway and streets	11,895	10,877	9%	-	-	0%	11,895	10,877	9%
Culture and recreation	1,530	1,563	-2%	-	-	0%	1,530	1,563	-2%
Economic and community development	3,949	2,096	88%	-	-	0%	3,949	2,096	88%
Bond Issue and Other									
Related Costs	118	419	-72%	-	-	0%	118	419	-72%
Other	191	32	497%	-	-	0%	191	32	497%
Interest on long-term debt	3,482	4,887	-29%	-	-	0%	3,482	4,887	-29%
Sewer	-	-	0%	35,268	27,285	29%	35,268	27,285	29%
Water	-	-	0%	545	553	-1%	545	553	-1%
Refuse	-	-	0%	5,554	5,077	9%	5,554	5,077	9%
Other proprietary funds	-	-	0%	620	542	14%	620	542	14%
<b>Total expenses</b>	<b>70,909</b>	<b>70,356</b>	<b>1%</b>	<b>41,987</b>	<b>33,457</b>	<b>25%</b>	<b>112,896</b>	<b>103,813</b>	<b>9%</b>
<b>Excess (deficiency) of revenues over expenses before capital contributions and transfers</b>									
	7,432	4,960	50%	(3,148)	5,445	-158%	4,284	10,405	-59%
Transfers	4,150	5,366	-23%	(4,150)	(5,366)	-23%	-	-	0%
Increase in Net Position	11,582	10,326	12%	(7,298)	79	-9338%	4,284	10,405	-59%
Net Position - Beginning of Year (Restated)	19,015	8,689		31,534	31,455		50,549	40,144	
Net Position - End of Year	\$ 30,597	\$ 19,015		\$ 24,236	\$ 31,534		\$ 54,833	\$ 50,549	

**Table 3**

City of Erie, Pennsylvania						
Governmental Activities						
(amounts expressed in thousands)						
	<u>Total Cost of Services</u>		<i>% Inc</i>	<u>Net Cost of Services</u>		<i>% Inc</i>
	<i>2012</i>	<i>2011</i>	<i>(Dec)</i>	<i>2012</i>	<i>2011</i>	<i>(Dec)</i>
Governmental Activities:						
General government	\$ 16,504	\$ 15,631	6%	\$ (11,016)	\$ (10,222)	8%
Public safety	33,241	35,029	-5%	(29,346)	(29,347)	0%
Highways and streets	11,895	10,877	9%	(5,385)	(3,929)	37%
Sanitation	-	-	0%	214	404	-47%
Culture and recreation	1,530	1,563	-2%	(1,426)	(1,430)	0%
Economic and community development	3,950	2,097	88%	(149)	2,035	-107%
Bond issue and other related costs	118	419	n/a	(118)	(419)	n/a
Other governmental funds	191	32	497%	78	(32)	-344%
Totals	<u>\$ 67,429</u>	<u>\$ 65,648</u>	3%	<u>\$ (47,148)</u>	<u>\$ (42,940)</u>	10%

*Business-Type Activities.* Revenues of the City's business-type activities (see Table 2) remained consistent at \$38.8 million in 2012 compared to \$38.9 million in 2011 and expenses increased by 25% (\$42 million in 2012 compared to \$33.5 million in 2011).

**Table 4**

City of Erie, Pennsylvania						
Business Activities						
(amounts expressed in thousands)						
	<u>Total Cost of Services</u>		<i>% Inc</i>	<u>Net Cost of Services</u>		<i>% Inc</i>
	<i>2012</i>	<i>2011</i>	<i>(Dec)</i>	<i>2012</i>	<i>2011</i>	<i>(Dec)</i>
Business-Type Activities:						
Sewer	\$ 35,268	\$ 27,285	29%	\$ (8,389)	\$ 35	-24069%
Water	545	553	-1%	(545)	(553)	-1%
Refuse	5,554	5,077	9%	1,252	1,483	-16%
Other proprietary funds	620	542	14%	(146)	(146)	0%
Totals	<u>\$ 41,987</u>	<u>\$ 33,457</u>	25%	<u>\$ (7,828)</u>	<u>\$ 819</u>	-1056%

## CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets.* The City's investment in capital assets as of December 31, 2012, amounted to \$134.2 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 \$6.3 million or a 4.9% 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>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Land	\$ 14,005	\$ 13,997	\$ 731	\$ 731	\$ 14,736	\$ 14,728
Building and improvements	3,153	2,961	41,373	39,605	44,526	42,566
Improvements other than buildings	1,210	1,181	10,061	10,524	11,271	11,705
Equipment and vehicles	5,557	5,120	25,208	25,185	30,765	30,305
Infrastructure	29,254	25,221	3,648	3,409	32,902	28,630
Capital assets, net	<u>\$ 53,179</u>	<u>\$ 48,480</u>	<u>\$ 81,021</u>	<u>\$ 79,454</u>	<u>\$ 134,200</u>	<u>\$ 127,934</u>

There were several large fixed asset additions during 2012 including \$265 thousand for 15 new police vehicles purchased to update an aging fleet and \$418 thousand to replace all City radios to meet a federal mandate, \$260 thousand for the third phase of the Perry Square improvement project and \$1.7 million for the replacement of a structurally deficient bridge on State St.

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 \$153.7 million. This amount was largely comprised of \$153.6 million in general obligation bonds.

**Table 6**

City of Erie, Pennsylvania						
Outstanding Debt						
(amounts expressed in thousands)						
	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Accrued Interest	\$ 21,440	\$ 19,472	\$ 5,756	\$ 5,203	\$ 27,196	\$ 24,675
General obligation bonds (backed by the City)	54,608	59,641	71,811	72,658	126,419	132,299
Swap liability	-	-	-	587	-	587
Capital leases	119	238	-	-	119	238
<b>Total</b>	<b>\$ 76,167</b>	<b>\$ 79,351</b>	<b>\$ 77,567</b>	<b>\$ 78,448</b>	<b>\$ 153,734</b>	<b>\$ 157,799</b>

The City's total long-term debt decreased by \$4 million, or 2.6%, during the current year. This net decrease was due to a general obligation bond issue of 2012 totaling \$8.7 million on June 5, 2012 with defeased debt of \$7.2 million along with current year principle payments.

*Bond Ratings.* The City's debt rating was upgraded to A- by Standard & Poor's as of December 31, 2012. 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, 2012, the governmental funds of the City reported a combined fund balance of \$48.9 million. This ending balance includes an increase in fund balance of \$2.8 million in the City's General Fund. The City's Debt Service fund balance went from a deficit of \$3.6 million for the prior year to a \$632 thousand positive fund balance at December 31, 2012.

## GENERAL FUND BUDGETARY HIGHLIGHTS

For 2012, actual expenditures on a budgetary basis were \$59 million compared to the budget amount of \$60.8 million. This resulted in a positive variance of \$1.8 million.

For 2012, actual revenues on a budgetary basis were \$57.4 million as compared to the budget amount of \$56.7 million. This resulted in a positive variance of \$670,540.

The City has, on a budgetary basis, an actual General Fund surplus of \$2.5 million as of the year end, compared to the budgeted balance of zero (including \$4.1 million in Other Financing Sources). (*See Budget Comparison Schedule – General Fund, page 78*) The variance in fund balance is due to increased revenues 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 2013 budget, such as tax rates and fees that will be charged for the business-type activities. The total budget appropriation is \$63.2 million. This represents an increase of \$2.4 million from the 2011 original budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for 2013 is 10.85 mills (.0108 per \$1,000 valuation). Of this tax rate 91% or 9.88 mills are utilized for General Fund activities. The remaining 9% or 0.97 mills are used for debt service. The General Fund's portion of property tax revenue for 2013 is estimated to be \$29.6 million, which remains consistent with 2012.

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

This 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 Finance and Administration, 626 State Street – Room 309, Erie, Pennsylvania 16501.

## BASIC FINANCIAL STATEMENTS

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Position**  
**December 31, 2012**  
**(and fiscal year ends of component units)**

Primary Government

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 25,999,325	\$ 7,881,163	\$ 33,880,488	\$ 4,121,475
Investments	8,334,338	-	8,334,338	298,712
Receivables, (net of allowance for uncollectibles)	11,877,222	3,644,756	15,521,978	3,335,323
Internal Balances	1,166,312	(1,166,312)	-	-
Inventories	-	-	-	287,663
Prepaid Items	-	-	-	285,872
Restricted Assets:				
Cash and Cash Equivalents	1,000,000	16,162,216	17,162,216	5,443,411
Investments	-	3,290,189	3,290,189	2,309,009
Total Current Assets	<u>48,377,197</u>	<u>29,812,012</u>	<u>78,189,209</u>	<u>16,081,465</u>
Non-Current Assets:				
Capital Assets:				
Non-Depreciable	14,005,150	730,999	14,736,149	3,560,140
Depreciable, (net)	39,173,830	80,290,035	119,463,865	50,530,908
Total Capital Assets	<u>53,178,980</u>	<u>81,021,034</u>	<u>134,200,014</u>	<u>54,091,048</u>
Bond Issue Costs, (net)	1,321,160	1,406,718	2,727,878	1,090,714
Long-Term Notes Receivable	17,205,439	-	17,205,439	529,931
Net Pension Benefit Asset	159,730	94,757	254,487	436,204
Total Non-Current Assets	<u>71,865,309</u>	<u>82,522,509</u>	<u>154,387,818</u>	<u>56,147,897</u>
Total Assets	<u>\$ 120,242,506</u>	<u>\$ 112,334,521</u>	<u>\$ 232,577,027</u>	<u>\$ 72,229,362</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 895,849	\$ 765,336	\$ 1,661,185	\$ 504,304
Accrued Liabilities	1,620,153	209,003	1,829,156	1,752,181
Other Current Liabilities	64,959	-	64,959	888,490
Unearned Revenue - Current	-	1,299,848	1,299,848	-
Due to Other Governments	-	316	316	-
Total Current Liabilities	<u>2,580,961</u>	<u>2,274,503</u>	<u>4,855,464</u>	<u>3,144,975</u>
Non-Current Liabilities				
Due Within One Year				
Compensated Absences	383,142	16,859	400,001	-
Accrued Interest Payable	-	169,733	169,733	-
Bonds, Notes and Leases Payable	5,886,731	5,173,846	11,060,577	2,395,384
Due In More Than One Year				
Compensated Absences	4,931,951	217,022	5,148,973	-
Accrued Interest Payable	21,439,752	5,586,477	27,026,229	471,930
Bonds, Notes and Leases Payable	48,840,581	66,637,098	115,477,679	32,432,186
Net OPEB Obligation	2,893,934	-	2,893,934	2,188,933
Claims Liabilities	1,001,862	-	1,001,862	-
Unearned Revenue - Non-Current	1,686,960	8,022,960	9,709,920	-
Total Non-Current Liabilities	<u>87,064,913</u>	<u>85,823,995</u>	<u>172,888,908</u>	<u>37,488,433</u>
Total Liabilities	<u>89,645,874</u>	<u>88,098,498</u>	<u>177,744,372</u>	<u>40,633,408</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	(18,043,883)	11,223,298	(6,820,585)	23,625,434
Restricted for:				
Noncurrent Notes Receivable	17,205,439	-	17,205,439	-
Pension Debt Service	1,457,628	-	1,457,628	-
Other	1,000,000	18,565,716	19,565,716	6,880,017
Unrestricted	26,632,236	(5,552,991)	21,079,245	1,090,503
Designated for Future Catastrophic Losses	2,345,212	-	2,345,212	-
Total Net Position	<u>30,596,632</u>	<u>24,236,023</u>	<u>54,832,655</u>	<u>31,595,954</u>
Total Liabilities and Net Position	<u>\$ 120,242,506</u>	<u>\$ 112,334,521</u>	<u>\$ 232,577,027</u>	<u>\$ 72,229,362</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**December 31, 2012**

Fund Balances – Total Governmental Funds \$ 48,936,429

Amounts reported for governmental activities in the Statement of Net Position are different because:

Net Bond Issue Costs	1,321,160
Net Pension Benefit Asset	159,730

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 \$107,174,034 and the accumulated depreciation is \$53,995,054.	53,178,980
---	------------

Receivables are expected to be collected over several years and are not available soon enough to pay for the current year's expenditures.	6,805,500
---	-----------

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 Position of the governmental activities.

Bonds, Notes and Leases Payable	(54,727,312)
Accrued Interest on the Bonds	(21,439,752)
Liabilities for Accrued Obligations	(7,291,998)

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>3,653,895</u>
---	------------------

Net Position of Governmental Activities	<u><u>\$ 30,596,632</u></u>
---	-----------------------------

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**For the Year Ended December 31, 2012**  
**(and fiscal year ends of component units)**

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$ 16,504,365	\$ 2,745,876	\$ 2,742,873	\$ -
Public Safety	33,240,551	-	3,780,274	114,076
Highways and Streets	11,895,343	-	2,830,457	3,679,642
Sanitation	-	-	213,894	-
Culture and Recreation	1,529,811	-	103,721	-
Economic and Community Development	3,949,299	-	2,899,739	901,629
Bond Issue and Other Related Costs	117,654	-	-	-
Other	191,490	-	-	269,478
Interest on Long-Term Debt	3,482,242	-	-	-
<b>Total Governmental Activities</b>	<b>70,910,755</b>	<b>2,745,876</b>	<b>12,570,958</b>	<b>4,964,825</b>
<b>Business-Type Activities:</b>				
Sewer	35,268,132	26,879,586	-	-
Water	544,863	-	-	-
Refuse	5,553,881	6,806,243	-	-
Other Proprietary Funds	619,524	473,517	-	-
<b>Total Business-Type Activities</b>	<b>41,986,400</b>	<b>34,159,346</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 112,897,155</b>	<b>\$ 36,905,222</b>	<b>\$ 12,570,958</b>	<b>\$ 4,964,825</b>
<b>Discretely Presented Component Units</b>	<b>\$ 30,071,473</b>	<b>\$ 12,354,557</b>	<b>\$ 14,176,221</b>	<b>\$ 1,591,420</b>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities (Continued)**  
**For the Year Ended December 31, 2012**

<b>Functions/Programs</b>	Net (Expense) Revenue and Changes In Net Position			Discretely Presented Component Units
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:				
General Government	\$ (11,015,616)	\$ -	\$ (11,015,616)	\$ -
Public Safety	(29,346,201)	-	(29,346,201)	-
Highways and Streets	(5,385,244)	-	(5,385,244)	-
Sanitation	213,894	-	213,894	-
Culture and Recreation	(1,426,090)	-	(1,426,090)	-
Economic and Community Development	(147,931)	-	(147,931)	-
Bond Issue and Other Related Costs	(117,654)	-	(117,654)	-
Other	77,988	-	77,988	-
Interest on Long-Term Debt	(3,482,242)	-	(3,482,242)	-
Total Governmental Activities	(50,629,096)	-	(50,629,096)	-
Business-Type Activities:				
Sewer	-	(8,388,546)	(8,388,546)	-
Water	-	(544,863)	(544,863)	-
Refuse	-	1,252,362	1,252,362	-
Other Proprietary Funds	-	(146,007)	(146,007)	-
Total Business-Type Activities	-	(7,827,054)	(7,827,054)	-
Total Primary Government	\$ (50,629,096)	\$ (7,827,054)	\$ (58,456,150)	\$ -
Discretely Presented Component Units				\$ (1,949,275)
General Revenues:				
Taxes:				
Property Taxes	\$ 31,656,420	\$ -	\$ 31,656,420	\$ -
Income Taxes	14,572,768	-	14,572,768	-
Other	947,596	-	947,596	-
Licenses and Permits	2,995,909	-	2,995,909	-
Fines and Forfeits	1,368,425	-	1,368,425	-
Investment Income	1,278,898	262,814	1,541,712	164,889
Lease Rental	-	3,361,432	3,361,432	-
Miscellaneous	579,890	1,055,073	1,634,963	141,006
Refunded Unearned Bond Interest	4,660,200	-	4,660,200	-
Transfers	4,150,302	(4,150,302)	-	-
<b>Total General Revenues and Transfers</b>	62,210,408	529,017	62,739,425	305,895
Changes in Net Position	11,581,312	(7,298,037)	4,283,275	(1,643,380)
Net Position - Beginning of Year (Restate)	19,015,320	31,534,060	50,549,380	33,239,334
Net Position - End of Year	\$ 30,596,632	\$ 24,236,023	\$ 54,832,655	\$ 31,595,954

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2012**

	General Fund	Debt Service Fund	HUD Programs Fund	Other Grants Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 10,596,944	\$ 1,459,040	\$ 8,106	\$ 1,900,656
Investments	-	-	-	-
Receivables, (net of allowance for uncollectibles):				
Property Tax	4,375,161	600,065	-	-
Earned Income and Local Services Tax	1,629,004	867,773	-	-
Liens	91,203	-	478,864	-
Intergovernmental	206,780	-	285,801	183,844
Interfund	3,204,058	271,332	-	-
Notes	-	-	14,733	667,815
Other	347,720	-	-	-
Notes Receivable, (net of current portion)	-	-	9,783,054	4,937,780
Total Assets	<u>\$ 20,450,870</u>	<u>\$ 3,198,210</u>	<u>\$ 10,570,558</u>	<u>\$ 7,690,095</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 200,275	\$ -	\$ 134,352	\$ 227,889
Accrued Payroll and Related	1,500,161	-	-	-
Interfund Payable	246,263	2,001,387	-	7,499
Compensated Absences Payable	383,142	-	-	-
Unearned Revenue	5,132,122	564,433	630,337	612,690
Other Liabilities	64,959	-	-	-
Total Liabilities	<u>7,526,922</u>	<u>2,565,820</u>	<u>764,689</u>	<u>848,078</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-Term Receivables	-	-	9,783,054	4,937,780
Committed:	-	-	-	-
Assigned:	2,175,774	-	-	-
Restricted:				
Capital Projects	-	-	-	-
Pension Debt Service	-	1,457,628	-	-
Liquid Fuels Tax	-	-	-	-
Economic and Community Development	-	-	-	1,904,237
Unassigned (Deficit):				
General Fund	10,748,174	-	-	-
Debt Service	-	(825,238)	-	-
HUD Programs	-	-	22,815	-
Total Fund Balances	<u>12,923,948</u>	<u>632,390</u>	<u>9,805,869</u>	<u>6,842,017</u>
Total Liabilities and Fund Equity	<u>\$ 20,450,870</u>	<u>\$ 3,198,210</u>	<u>\$ 10,570,558</u>	<u>\$ 7,690,095</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Balance Sheet (Continued)**  
**Governmental Funds**  
**December 31, 2012**

	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 817,634	\$ 7,224,543	\$ 22,006,923
Investments	8,334,338	-	8,334,338
Receivables, (net of allowance for uncollectibles)			
Property Tax	-	-	4,975,226
Earned Income and Local Services Tax	-	-	2,496,777
Liens	-	51,867	621,934
Intergovernmental	-	-	676,425
Interfund	43,312	87,035	3,605,737
Notes	-	-	682,548
Other	65,000	-	412,720
Notes Receivable, (net of current portion)	2,464,604	20,001	17,205,439
Total Assets	<u>\$ 11,724,888</u>	<u>\$ 7,383,446</u>	<u>\$ 61,018,067</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 29,067	\$ 115,653	\$ 707,236
Accrued Payroll and Related	-	-	1,500,161
Interfund Payable	6,000	24,831	2,285,980
Compensated Absences Payable	-	-	383,142
Unearned Revenue	148,711	51,867	7,140,160
Other Liabilities	-	-	64,959
Total Liabilities	<u>183,778</u>	<u>192,351</u>	<u>12,081,638</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Long-Term Receivables	2,464,604	20,001	17,205,439
Committed:	-	341,650	341,650
Assigned:	-	-	2,175,774
Restricted:			
Capital Projects	9,076,506	4,998,957	14,075,463
Debt Service	-	-	1,457,628
Liquid Fuels Tax	-	746,931	746,931
Economic and Community Development	-	1,083,556	2,987,793
Unassigned (Deficit):			
General Fund	-	-	10,748,174
Debt Service	-	-	(825,238)
HUD Programs	-	-	22,815
Total Fund Balances	<u>11,541,110</u>	<u>7,191,095</u>	<u>48,936,429</u>
Total Liabilities and Fund Equity	<u>\$ 11,724,888</u>	<u>\$ 7,383,446</u>	<u>\$ 61,018,067</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2012**

	<i>General Fund</i>	<i>Debt Service Fund</i>	<i>HUD Programs Fund</i>	<i>Other Grants Fund</i>
<b>REVENUES</b>				
Taxes	\$ 40,113,454	\$ 7,993,969	\$ -	\$ -
Licenses and Permits	3,047,897	-	-	-
Intergovernmental	7,163,102	-	4,171,343	3,807,512
Charges for Services	451,228	-	-	-
Fines and Forfeits	1,393,511	-	-	-
Investment Income	66,989	6,591	92,119	183,175
Miscellaneous	211,581	-	30,109	148,048
Total Revenues	<u>52,447,762</u>	<u>8,000,560</u>	<u>4,293,571</u>	<u>4,138,735</u>
<b>EXPENDITURES</b>				
Current:				
General Government	7,119,577	-	-	-
Public Safety	36,364,376	-	248,081	253,757
Highways and Streets	8,409,270	-	549,933	3,384,316
Culture and Recreation	1,486,728	-	75,006	-
Economic and Community Development	334,248	-	3,271,896	218,004
Capital Outlay	-	-	-	258,363
Debt Service:				
Principal	-	6,531,039	-	-
Interest	-	1,946,553	-	-
Total Expenditures	<u>53,714,199</u>	<u>8,477,592</u>	<u>4,144,916</u>	<u>4,114,440</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,266,437)</u>	<u>(477,032)</u>	<u>148,655</u>	<u>24,295</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,199,752	-	-	93,657
Operating Transfers Out	(169,991)	(49,450)	-	(57,708)
Bond Issuance Costs and Original Issue Discount	-	(282,172)	-	-
Other Bond-Related Expenditures	-	-	-	-
Refunded Payment to Escrow	-	(6,330,331)	-	-
Proceeds from Refunding Long-Term Debt	-	6,663,968	-	-
Refunded Unearned Bond Interest	-	4,660,200	-	-
Total Other Financing Sources and (Uses)	<u>4,029,761</u>	<u>4,662,215</u>	<u>-</u>	<u>35,949</u>
Net Change in Fund Balance	2,763,324	4,185,183	148,655	60,244
Fund Balance, January 1, 2012	10,160,624	(3,552,793)	9,478,235	6,781,773
Prior Period Adjustments	-	-	178,979	-
Fund Balance, December 31, 2012	<u>\$ 12,923,948</u>	<u>\$ 632,390</u>	<u>\$ 9,805,869</u>	<u>\$ 6,842,017</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended December 31, 2012**

	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ 48,107,423
Licenses and Permits	-	-	3,047,897
Intergovernmental	60,000	2,009,983	17,211,940
Charges for Services	-	-	451,228
Fines and Forfeits	-	-	1,393,511
Investment Income	876,780	49,319	1,274,973
Miscellaneous	172,699	45,864	608,301
Total Revenues	<u>1,109,479</u>	<u>2,105,166</u>	<u>72,095,273</u>
<b>EXPENDITURES</b>			
Current:			
General Government	45,733	-	7,165,310
Public Safety	3,834	-	36,870,048
Highways and Streets	3,996	1,973,043	14,320,558
Culture and Recreation	-	-	1,561,734
Economic and Community Development	-	-	3,824,148
Capital Outlay	323,137	2,765,173	3,346,673
Debt Service:			
Principal	-	-	6,531,039
Interest	-	-	1,946,553
Total Expenditures	<u>376,700</u>	<u>4,738,216</u>	<u>75,566,063</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>732,779</u>	<u>(2,633,050)</u>	<u>(3,470,790)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Operating Transfers In	-	156,881	4,450,290
Operating Transfers Out	-	(35,949)	(313,098)
Bond Issuance Costs and Original Issue Discount	-	-	(282,172)
Other Bond-Related Expenditures	-	-	-
Refunded Payment to Escrow	-	-	(6,330,331)
Proceeds from Refunding Long-Term Debt	-	696,814	7,360,782
Refunded Deferred Bond Interest	-	-	4,660,200
Total Other Financing Sources and (Uses)	<u>-</u>	<u>817,746</u>	<u>9,545,671</u>
Net Change in Fund Balance	732,779	(1,815,304)	6,074,881
Fund Balance, January 1, 2012	10,808,331	9,006,399	42,682,569
Prior Period Adjustments	-	-	178,979
Fund Balance, December 31, 2012	<u>\$ 11,541,110</u>	<u>\$ 7,191,095</u>	<u>\$ 48,936,429</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental**  
**Funds to the Statement of Activities**  
**For the Year Ended December 31, 2012**

Net Change in Fund Balances – Total Governmental Funds \$ 6,074,881

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. 8,419,144

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. (3,454,996)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. 17,874,065

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. (1,027,669)

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. (13,398,017)

Net revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (1,886,769)

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. 930,639

The revenue and expenses of the internal service fund are reported with the governmental activities. (1,949,966)

Change in Net Position of Governmental Activities \$ 11,581,312

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2012**

	Sewer Revenue Fund	Water Revenue Fund	Refuse and Recycling Fund	Other Proprietary Funds
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 4,785,159	\$ -	\$ 2,058,807	\$ 826,976
Restricted Cash and Cash Equivalents	-	-	-	-
Restricted Investments	-	-	-	-
Receivables, (net of allowance for uncollectibles):				
Accounts	1,456,153	-	1,569,200	-
Intergovernmental	202,792	-	-	-
Interfund	173,265	-	27,515	-
Other	82,838	-	-	-
Total Receivables	<u>1,915,048</u>	<u>-</u>	<u>1,596,715</u>	<u>-</u>
Total Current Assets	<u>6,700,207</u>	<u>-</u>	<u>3,655,522</u>	<u>826,976</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	6,068,634	4,123,328	5,490,923	651,883
Infrastructure	5,018,569	-	-	-
Less: Accumulated Depreciation	<u>(6,981,928)</u>	<u>(36,136,814)</u>	<u>(3,697,954)</u>	<u>(1,325,217)</u>
Total Capital Assets, net	<u>5,424,049</u>	<u>11,714,345</u>	<u>1,976,530</u>	<u>752,237</u>
Unamortized Bond Costs (net)	144,612	-	-	-
Net Pension Asset	44,038	-	39,440	11,279
Total Non-Current Assets	<u>5,612,699</u>	<u>11,714,345</u>	<u>2,015,970</u>	<u>763,516</u>
Total Assets	<u>\$ 12,312,906</u>	<u>\$ 11,714,345</u>	<u>\$ 5,671,492</u>	<u>\$ 1,590,492</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 272,590	\$ -	\$ 116,917	\$ 1,202
Accrued Payroll and Related	153,928	-	51,596	3,479
Interfund Payable	176,171	-	97,320	1,093,601
Accrued Interest Payable	-	-	-	-
Compensated Absences Payable	13,548	-	2,474	837
Unearned Revenue	1,083,922	211,130	-	4,796
Current Portion of Bonds Payable	1,278,846	-	-	-
Due to Other Governments	-	-	-	316
Total Current Liabilities	<u>2,979,005</u>	<u>211,130</u>	<u>268,307</u>	<u>1,104,231</u>
Non-Current Liabilities:				
Accrued Interest Payable	5,586,477	-	-	-
Compensated Absences Payable	174,394	-	31,849	10,779
Claims and Judgments Payable	-	-	-	-
Unearned Revenue	-	8,022,960	-	-
General Obligation Bonds Payable	12,581,029	-	-	-
Total Non-Current Liabilities	<u>18,341,900</u>	<u>8,022,960</u>	<u>31,849</u>	<u>10,779</u>
Total Liabilities	<u>21,320,905</u>	<u>8,234,090</u>	<u>300,156</u>	<u>1,115,010</u>
<b>NET POSITION</b>				
Invested in Capital Assets, (net of related debt)	(8,435,826)	11,714,345	1,976,530	752,237
Restricted	-	-	75,000	-
Unrestricted	(572,173)	(8,234,090)	3,319,806	(276,755)
Designated for Future Catastrophic Losses	-	-	-	-
Total Net Position	<u>(9,007,999)</u>	<u>3,480,255</u>	<u>5,371,336</u>	<u>475,482</u>
Total Liabilities and Net Position	<u>\$ 12,312,906</u>	<u>\$ 11,714,345</u>	<u>\$ 5,671,492</u>	<u>\$ 1,590,492</u>

See accompanying notes.

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**December 31, 2012**

	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 210,221	\$ 7,881,163	\$ 3,992,402
Restricted Cash and Cash Equivalents	16,162,216	16,162,216	1,000,000
Restricted Investments	3,290,189	3,290,189	-
Receivables, (net of allowance for uncollectibles):			
Accounts	94,579	3,119,932	-
Intergovernmental	-	202,792	-
Interfund	-	200,780	267,287
Other	239,194	322,032	94,858
Total Receivables	<u>333,773</u>	<u>3,845,536</u>	<u>362,145</u>
Total Current Assets	<u>19,996,399</u>	<u>31,179,104</u>	<u>5,354,547</u>
Non-Current Assets:			
Capital Assets:			
Land	-	730,999	-
Buildings and Improvements	123,631,487	133,382,923	-
Improvements Other than Building	-	36,173,302	-
Equipment and Vehicles	21,781,094	38,115,862	-
Infrastructure	-	5,018,569	-
Less Accumulated Depreciation	<u>(84,258,708)</u>	<u>(132,400,621)</u>	-
Total Capital Assets, (net)	61,153,873	81,021,034	-
Unamortized Bond Costs (net)	1,262,106	1,406,718	-
Net Pension Asset	-	94,757	-
Total Non-Current Assets	<u>62,415,979</u>	<u>82,522,509</u>	-
Total Assets	<u>\$ 82,412,378</u>	<u>\$ 113,701,613</u>	<u>\$ 5,354,547</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 374,627	\$ 765,336	\$ 158,065
Accrued Payroll and Related	-	209,003	119,992
Interfund Payable	-	1,367,092	420,733
Accrued Interest Payable	169,733	169,733	-
Compensated Absences Payable	-	16,859	-
Unearned Revenue	-	1,299,848	-
Current Portion of Bonds Payable	3,895,000	5,173,846	-
Due to Other Governments	-	316	-
Total Current Liabilities	<u>4,439,360</u>	<u>9,002,033</u>	<u>698,790</u>
Non-Current Liabilities:			
Accrued Interest Payable	-	5,586,477	-
Compensated Absences Payable	-	217,022	-
Claims and Judgments Payable	-	-	1,001,862
Unearned Revenue	-	8,022,960	-
General Obligation Bonds Payable	54,056,069	66,637,098	-
Total Non-Current Liabilities	<u>54,056,069</u>	<u>80,463,557</u>	<u>1,001,862</u>
Total Liabilities	<u>58,495,429</u>	<u>89,465,590</u>	<u>1,700,652</u>
<b>NET POSITION</b>			
Invested in Capital Assets, (net of related debt)	5,216,012	11,223,298	-
Restricted	18,490,716	18,565,716	1,000,000
Unrestricted	210,221	(5,552,991)	308,683
Designated for Future Catastrophic Losses	-	-	2,345,212
Total Net Position	<u>23,916,949</u>	<u>24,236,023</u>	<u>3,653,895</u>
Total Liabilities and Net Position	<u>\$ 82,412,378</u>	<u>\$ 113,701,613</u>	<u>\$ 5,354,547</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Sewer Revenue Fund	Water Revenue Fund	Refuse and Recycling Fund	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
<b>OPERATING REVENUES</b>							
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -	\$ 6,548,190	\$ 6,548,190	\$ -
Charges for Services	20,331,396	-	6,806,243	473,517	-	27,611,156	9,451,675
Lease Rental	-	3,361,432	-	-	-	3,361,432	-
Rental Income	-	-	-	88,487	-	88,487	-
Miscellaneous	69,795	-	123,111	-	-	192,906	-
Total Operating Revenues	20,401,191	3,361,432	6,929,354	562,004	6,548,190	37,802,171	9,451,675
<b>OPERATING EXPENSES</b>							
Personnel Services	4,609,875	-	1,768,773	247,540	-	6,626,188	-
Other Personnel Services	2,218,738	-	898,206	132,115	-	3,249,059	-
Services and Fees	2,039,035	-	2,078,699	30,303	30,084	4,178,121	75,669
Utilities	1,788,796	-	26,082	27,875	-	1,842,753	-
Rent	5,544	-	109	31,500	-	37,153	-
Insurance	418,830	-	25,520	5,700	-	450,050	646,240
Materials, Supplies, and Maintenance	1,016,671	-	456,478	72,427	-	1,545,576	-
Insurance Claims	-	-	-	-	-	-	10,937,853
Depreciation and Amortization	302,116	544,863	288,083	66,591	4,469,910	5,671,563	-
Leases	6,548,190	-	-	-	-	6,548,190	-
Other Expenses	39,140	-	11,931	5,473	12,557	69,101	-
Total Operating Expenses	18,986,935	544,863	5,553,881	619,524	4,512,551	30,217,754	11,659,762
Operating Income (Loss)	1,414,256	2,816,569	1,375,473	(57,520)	2,035,639	7,584,417	(2,208,087)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Intergovernmental Revenue	281,484	-	102,000	4,000	2,360	389,844	-
Investment Earnings	4,865	-	2,541	1,429	253,979	262,814	3,944
Refunded Prepaid Bond Interest	(4,660,200)	-	-	-	-	(4,660,200)	-
Swap Fees	-	-	-	-	(4,488,041)	(4,488,041)	-
Bond Fees	-	-	-	-	(80,420)	(80,420)	-
Swap Income	-	-	-	-	151,548	151,548	-
Other Income	-	-	-	14,000	218,288	232,288	241,067
Interest Expense	(989,717)	-	-	-	(1,550,268)	(2,539,985)	-
Total Nonoperating Revenues (Expenses)	(5,363,568)	-	104,541	19,429	(5,492,554)	(10,732,152)	245,011
Total Income (Loss) Before Transfers	(3,949,312)	2,816,569	1,480,014	(38,091)	(3,456,915)	(3,147,735)	(1,963,076)
Transfers In	112,530	-	-	-	-	112,530	13,110
Transfers (Out)	-	(3,150,302)	(1,112,530)	-	-	(4,262,832)	-
Change in Net Position	(3,836,782)	(333,733)	367,484	(38,091)	(3,456,915)	(7,298,037)	(1,949,966)
Net Position, January 1, 2012	(5,171,217)	3,813,988	5,003,852	513,573	27,373,864	31,534,060	5,603,861
Net Position, December 31, 2012	\$ (9,007,999)	\$ 3,480,255	\$ 5,371,336	\$ 475,482	\$ 23,916,949	\$ 24,236,023	\$ 3,653,895

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Sewer Revenue Fund	Water Revenue Fund	Refuse and Recycling Fund	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
<b>Cash Flows From Operating Activities</b>							
Receipts from Customers and Users	\$20,410,219	\$ 3,361,432	\$ 6,360,227	\$ 562,004	\$ -	\$30,693,882	\$ -
Receipts from Interfund Services Provided	600,624	(211,130)	123,111	(4,618)	6,548,190	7,056,177	9,381,262
Net Receipts from Other Operating Activities	(3,126,410)	-	(2,428,773)	(32,569)	(527,947)	(6,115,699)	-
Payments to Suppliers	(6,796,687)	-	(2,661,345)	(377,471)	-	(9,835,503)	-
Payments to Employees	(8,800,500)	-	(63,642)	(70,548)	-	(8,934,690)	(12,207,438)
Net Cash Provided (Used) by Operating Activities	2,287,246	3,150,302	1,329,578	76,798	6,020,243	12,864,167	(2,826,176)
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers (to) from Other Funds	112,530	(3,150,302)	(1,112,530)	-	-	(4,150,302)	13,110
Intergovernmental Revenue	281,484	-	102,000	4,000	-	387,484	-
Net Cash Provided (Used) by Noncapital Financing Activities	394,014	(3,150,302)	(1,010,530)	4,000	-	(3,762,818)	13,110
<b>Cash Flows From Capital and Related Financing Activities</b>							
Purchases of Capital Assets	(430,675)	-	(384,550)	-	-	(815,225)	-
Acquisition and Construction of Capital Assets	-	-	-	-	(5,982,702)	(5,982,702)	-
Net Proceeds from Capital Assets	-	-	-	-	3,685,360	3,685,360	-
Bond Fee	-	-	-	-	(80,420)	(80,420)	-
Swap Fee	-	-	-	-	(4,488,041)	(4,488,041)	-
Swap Income	-	-	-	-	151,548	151,548	-
Interest Paid on Capital Debt	(481,027)	-	-	-	(1,697,720)	(2,178,747)	-
Principal Paid on Capital Debt	(570,666)	-	-	-	(3,945,000)	(4,515,666)	-
Insurance Proceeds	-	-	-	-	-	-	241,067
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,482,368)	-	(384,550)	-	(12,356,975)	(14,223,893)	241,067
<b>Cash Flows From Investing Activities</b>							
Increase in Restricted Investments	-	-	-	-	11,362,999	11,362,999	-
Interest and Dividends Received	4,865	-	2,541	1,429	376,670	385,505	3,944
Net Cash Provided by Investing Activities	4,865	-	2,541	1,429	11,739,669	11,748,504	3,944
Net Increase (Decrease) in Cash and Cash Equivalents	1,203,757	-	(62,961)	82,227	5,402,937	6,625,960	(2,568,055)
Cash and Cash Equivalents, January 1, 2012 (Including \$1,000,000 for the Internal Service Fund Reported in Restricted Accounts)	3,581,402	-	2,121,768	744,749	10,969,500	17,417,419	7,560,457
Cash and Cash Equivalents, December 31, 2012	\$ 4,785,159	\$ -	\$ 2,058,807	\$ 826,976	\$ 16,372,437	\$ 24,043,379	\$ 4,992,402

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Sewer Revenue Fund	Water Revenue Fund	Refuse and Recycling Fund	Other Proprietary Funds	Erie Sewer Authority	Totals	Governmental Activities - Internal Service
	\$ 1,414,256	\$ 2,816,569	\$ 1,375,473	\$ (57,520)	\$ 2,035,639	\$ 7,584,417	\$ (2,208,087)
	302,116	544,863	288,083	66,591	4,469,910	5,671,563	-
	(43,563)	-	(446,016)	-	30,124	(459,455)	-
	126,033	-	-	-	-	126,033	-
	(3,647)	-	-	-	-	(3,647)	-
	-	-	-	-	-	-	(70,413)
	4,505	-	4,249	1,126	-	9,880	-
	(77,132)	-	51,873	(291)	(515,430)	(540,980)	(241,669)
	44,038	-	14,517	739	-	59,294	(8,689)
	6,428	-	54,531	70,414	-	131,373	-
	(16,617)	-	(13,132)	319	-	(29,430)	-
	-	-	-	38	-	38	-
	-	-	-	-	-	-	(297,318)
	530,829	(211,130)	-	(4,618)	-	315,081	-
	872,990	333,733	(45,895)	134,318	3,984,604	5,279,750	(618,089)
	\$ 2,287,246	\$ 3,150,302	\$ 1,329,578	\$ 76,798	\$ 6,020,243	\$ 12,864,167	\$ (2,826,176)

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

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

**Non-Cash Transactions:**

Non-cash interfund activity	\$ 73,883	\$ -	\$ -	\$ -	\$ -	\$ 73,883	\$ -
-----------------------------	-----------	------	------	------	------	-----------	------

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Fiduciary Net Position**  
**December 31, 2012**

	Pension Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 13,218,437	\$ 362,228
Investments, at Fair Value		
Commercial Mortgages	286,894	-
Exchange Traded Mutual Funds	20,057,652	-
Register Investment Companies - Mutual Funds	32,480,554	-
Corporate Bonds and Notes	30,038,381	-
United States Government and Agency Obligations	29,660,140	-
Common Stocks	102,971,885	-
Accrued Investment Income	567,731	-
Total Assets	\$ 229,281,674	\$ 362,228
<b>LIABILITIES</b>		
Accounts Payable	\$ 177,848	\$ -
Deposits Held in Trust	-	207,717
Due to Other Governments	-	154,511
Total Liabilities	177,848	362,228
<b>NET POSITION</b>		
Held in Trust for Employees' Pension Benefits	229,103,826	-
Total Liabilities and Net Position	\$ 229,281,674	\$ 362,228

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended December 31, 2012**

<b>ADDITIONS TO NET POSITION</b>	<u>Pension Trust Funds</u>
Contributions	
Employer	\$ 7,130,117
City of Erie Water Authority	307,922
Plan Members	5,919,358
Total Contributions	<u>13,357,397</u>
Investment Earnings	
Net Appreciation in Fair Value of Investments	17,956,125
Interest and Dividends	5,588,089
Other Investment Income	4,632
Less: Investment Expenses	<u>(1,040,704)</u>
Total Investment Earnings	22,508,142
Other Income	6,599
Total Additions To Net Position	<u>35,872,138</u>
 <b>DEDUCTIONS FROM NET POSITION</b>	
Benefits Paid	20,484,812
Participant Refunds	123,276
Administrative Expenses	209,470
Total Deductions from Net Position	<u>20,817,558</u>
 Net Increase to Net Position	 15,054,580
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	
Net Position, January 1, 2012	<u>214,049,246</u>
Net Position, December 31, 2012	<u>\$ 229,103,826</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Net Position**  
**Component Units**  
**December 31, 2012**

	<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>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 77,142	\$ 1,307,336	\$ 2,736,997	\$ 4,121,475
Investments	-	298,712	-	298,712
Receivables, (net of allowance for uncollectibles)	49,634	3,162,749	122,940	3,335,323
Inventories	-	287,663	-	287,663
Prepaid	-	178,565	107,307	285,872
Restricted Assets:				
Cash and Cash Equivalents	18,644	2,900,846	2,523,921	5,443,411
Investments	-	348,166	1,960,843	2,309,009
Capital Assets:				
Non-Depreciable	-	1,672,281	1,887,859	3,560,140
Depreciable, (net)	1,999,538	19,923,479	28,607,891	50,530,908
Bond Issue Costs, (net)	-	-	1,090,714	1,090,714
Long-Term Receivable	3,428	-	526,503	529,931
Net Pension Benefit Asset	-	436,204	-	436,204
Total Assets	<u>\$ 2,148,386</u>	<u>\$ 30,516,001</u>	<u>\$ 39,564,975</u>	<u>\$ 72,229,362</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 161,770	\$ 289,662	\$ 52,872	\$ 504,304
Accrued Liabilities	12,517	1,686,868	52,796	1,752,181
Accrued Interest Payable	-	-	471,930	471,930
Other Current Liabilities	-	888,490	-	888,490
Non-Current Liabilities				
Due Within One Year				
Bonds, Notes and Leases Payable	1,285,384	-	1,110,000	2,395,384
Due In More Than One Year				
Bonds, Notes and Leases Payable	234,911	-	32,197,275	32,432,186
Net OPEB Obligation	-	2,188,933	-	2,188,933
Total Liabilities	<u>1,694,582</u>	<u>5,053,953</u>	<u>33,884,873</u>	<u>40,633,408</u>
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	1,738,084	21,595,760	291,590	23,625,434
Restricted for:				
Other	-	3,249,012	3,631,005	6,880,017
Unrestricted:				
Undesignated	(1,284,280)	617,276	1,757,507	1,090,503
Total Net Position	<u>453,804</u>	<u>25,462,048</u>	<u>5,680,102</u>	<u>31,595,954</u>
Total Liabilities and Net Position	<u>\$ 2,148,386</u>	<u>\$ 30,516,001</u>	<u>\$ 39,564,975</u>	<u>\$ 72,229,362</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Activities**  
**Component Units**  
**For the Year Ended December 31, 2012**

	Program Revenues		Capital		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Governmental Activities:							
Economic and Community Development	\$ 3,588,091	\$ -	\$ 3,007,689	\$ -	\$ (580,402)	\$ -	\$ (580,402)
Total Governmental Activities	3,588,091	-	3,007,689	-	(580,402)	-	(580,402)
Business-Type Activities:							
Public Transportation	20,579,472	6,986,977	11,168,532	1,591,420	-	(832,543)	(832,543)
Metered Parking	5,903,910	5,367,580	-	-	-	(536,330)	(536,330)
Total Business-Type Activities	26,483,382	12,354,557	11,168,532	1,591,420	-	(1,368,873)	(1,368,873)
Total Component Units	\$ 30,071,473	\$ 12,354,557	\$ 14,176,221	\$ 1,591,420	(580,402)	(1,368,873)	(1,949,275)
			General Revenues:				
			Interest Earnings		80	164,809	164,889
			Miscellaneous		133,799	7,207	141,006
			<b>Total General Revenues and Transfers</b>		133,879	172,016	305,895
			Changes in Net Position		(446,523)	(1,196,857)	(1,643,380)
			Net Position - Beginning of Year		900,327	32,339,007	33,239,334
			Net Position - End of Year		\$ 453,804	\$ 31,142,150	\$ 31,595,954

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Component Units**  
**For the Year Ended December 31, 2012**

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
<b>Cash Flows From Operating Activities</b>			
Receipts from Customers and Users	\$ -	\$ 5,419,476	\$ 5,419,476
Receipts from Services Provided	5,766,655	-	5,766,655
Payments to Suppliers	(5,367,896)	(1,740,991)	(7,108,887)
Payments to Employees	(8,503,272)	(1,010,588)	(9,513,860)
Payments for Employee Benefits and Taxes	(3,217,731)	-	(3,217,731)
Net Cash Provided (Used) by Operating Activities	<u>(11,322,244)</u>	<u>2,667,897</u>	<u>(8,654,347)</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Cash Receipts from Operating Grants	11,168,532	-	11,168,532
Net Cash Provided by Noncapital Financing Activities	<u>11,168,532</u>	<u>-</u>	<u>11,168,532</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition and Construction of Capital Assets	(1,969,972)	(766,702)	(2,736,674)
Net Proceeds from Capital Debt	-	607,953	607,953
Net Payments on Line of Credit	-	(11,586)	(11,586)
Payments on Long-Term Receivable	-	26,961	26,961
Interest Paid on Capital Debt	-	(1,504,809)	(1,504,809)
Principal Paid on Capital Debt	-	(1,010,000)	(1,010,000)
Capital Grant Receipts	1,250,785	-	1,250,785
Proceeds from Sales of Capital Assets	1,180	6,027	7,207
Net Cash Used by Capital and Related Financing Activities	<u>(718,007)</u>	<u>(2,652,156)</u>	<u>(3,370,163)</u>
<b>Cash Flows From Investing Activities</b>			
Net Purchase of Investments	257,737	775,591	1,033,328
Interest and Dividends Received	19,089	145,720	164,809
Net Cash Provided by Investing Activities	<u>276,826</u>	<u>921,311</u>	<u>1,198,137</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(594,893)	937,052	342,159
Cash and Cash Equivalents, January 1, 2012	<u>4,803,075</u>	<u>4,323,866</u>	<u>9,126,941</u>
Cash and Cash Equivalents, December 31, 2012	<u>\$ 4,208,182</u>	<u>\$ 5,260,918</u>	<u>\$ 9,469,100</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Statement of Cash Flows (Continued)**  
**Component Units**  
**For the Year Ended December 31, 2012**

	<i>Erie Metropolitan Transit Authority</i>	<i>Erie Parking Authority</i>	<i>Totals</i>
<b>Reconciliation of Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating Profit (Loss)	\$ (13,592,495)	\$ 1,183,739	\$ (12,408,756)
Adjustments to Reconcile Operating Profit (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	2,659,699	1,413,689	4,073,388
Amortization Expense	-	26,541	26,541
(Increase) Decrease in Net Pension Benefit Asset	23,412	-	23,412
(Increase) Decrease in Liability for Retiree Health Insurance	449,388	-	449,388
(Increase) Decrease in Accounts Receivable	25,145	51,896	77,041
(Increase) Decrease in Operating Grants Receivable	(1,422,184)	-	(1,422,184)
(Increase) Decrease in Inventories	(19,365)	-	(19,365)
(Increase) Decrease in Prepaid Items	14,815	(2,210)	12,605
Increase (Decrease) in Accounts Payable	73,731	1,433	75,164
Increase (Decrease) in Accrued Payroll and Related	287,965	(7,191)	280,774
Increase (Decrease) in Other Accrued Items	928	-	928
Increase (Decrease) in Operating Government Advances	22,393	-	22,393
Increase (Decrease) in Unredeemed Tokens, etc.	4,324	-	4,324
Increase (Decrease) in Deferred Revenue	150,000	-	150,000
Total Adjustments	<u>2,270,251</u>	<u>1,484,158</u>	<u>3,754,409</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (11,322,244)</u>	<u>\$ 2,667,897</u>	<u>\$ (8,654,347)</u>

**CITY OF ERIE, PENNSYLVANIA**  
Notes to Basic Financial Statements  
December 31, 2012

**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. 34 and 62 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 B – DETAIL NOTES – ALL FUNDS (continued)

Erie Sewer Authority - This is a financing authority created to acquire property and equipment for a sewage treatment plant. The City is contingently liable for the debt of the authority under an agreement. The City entered into Guaranty Agreements whereby the City will guarantee payment of principal and interest on the Series of 2012, 2010, 2009 and 2001 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 of 2012, 2010, 2006, and 2004 Bonds. This component unit has been included as a discretely presented component unit because the primary government is financially accountable but does not have substantively the same governing body nor does it provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government.

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

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

Administrative Offices:

Erie Redevelopment Authority  
626 State Street, Room 107  
Erie, Pennsylvania 16501  
December 31, 2012  
Unqualified opinion dated August 26, 2013

Erie Parking Authority  
25 East 10th Street  
Erie, Pennsylvania 16501  
December 31, 2012  
Unqualified opinion dated February 14, 2013

Erie Metropolitan Transit Authority  
127 East 14th Street  
Erie, Pennsylvania 16503  
June 30, 2012  
Unqualified opinion dated September 28, 2012

Erie Sewer Authority  
120 West 10<sup>th</sup> Street  
Erie, Pennsylvania 16501  
December 31, 2012  
Unqualified opinion dated March 4, 2013

**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.

Erie Downtown Partnership - This non-profit was created to revitalize the downtown by improving its image, business climate, physical environment and design.

Cultures, Arts, Festivals, and Events of Erie – This non-profit organization was created to promote neighborhood life within the City.

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

### Government-Wide and Fund Financial Statements

The statement of net position 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 position 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 Fund – 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 B – DETAIL NOTES – ALL FUNDS (continued)

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

The government reports the following major proprietary funds:

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

Water Revenue Fund – To account for the assets used to provide water services to the residents and 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.

### 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 position.

*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

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

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 position. The statement of revenues, expenses, and changes in fund net position 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 unearned revenues, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include earned income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from earned income taxes is recognized in the period in which the taxpayer earns the income.

Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

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

*Unearned Revenue* - Unearned 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 unearned revenue.

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

*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 Net Position**

*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 and Home Rule Charter, 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 Capital Improvements, 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 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 position as construction in progress.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

<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 Position* – Net position represent the difference between assets and liabilities. Net position 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, Deposits and Investments* for further detail. Also, the City has amounts receivable arising from property tax levies, sewer and refuse billings, earned income and occupational tax liabilities, revolving notes, property liens, and other various activities. These amounts are generally due from taxpayers and citizens of the City and are, thus, subject to the economic conditions of this geographic area.

*Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Governmental fund balances are classified as nonspendable, committed, assigned, restricted, or unassigned. Nonspendable fund balances cannot be spent because of their form. 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. Restricted fund balances have limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. 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 position is 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.

### Subsequent Events

In preparing these financial statements, The City has evaluated events and transactions for potential recognition or disclosure through February 7, 2014, the date the financial statements were available to be issued.

## NOTE B – DETAIL NOTES – ALL FUNDS

### Assets

#### Deposits and Investments

The carrying amounts of cash and investments at December 31, 2012 consist of the following:

Petty Cash	\$	23,956
Deposits		64,599,413
Investments		227,120,033
	\$	<u>291,743,402</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

*Reconciliation to Statement of Net Position*

Cash and Cash Equivalents:	
Governmental activities	\$ 26,999,325
Business-type activities	24,043,379
Fiduciary Funds	13,580,665
	<u>\$ 64,623,369</u>
Investments:	
Governmental activities	\$ 8,334,338
Business-type activities	3,290,189
Fiduciary Funds	215,495,506
	<u>\$ 227,120,033</u>
	<u><u>\$ 291,743,402</u></u>

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

*Cash 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.	62,099,413	61,779,434
Total	<u>\$ 64,599,413</u>	<u>\$ 64,279,434</u>

*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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

As of December 31, 2012, the City’s investments were comprised of the following:

Commercial mortgages	\$ 286,894
Exchange traded mutual funds	20,057,652
Registered investment companies - mutual funds	32,480,554
Corporate bonds and notes	31,365,954
United States government and agency obligations	34,486,337
Common stocks	108,442,642
	<u>\$ 227,120,033</u>

As of December 31, 2012, the City had the following investments in fixed income securities:

<u>Bond Rating</u>	<u>Fair Value</u>
Aaa	\$ 21,477,520
Aa1	560,460
Aa2	1,246,439
Aa3	584,521
Other	42,270,245
	<u>\$ 66,139,185</u>

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

*Investment Credit Risk* – The City’s investment policy follows the investments that are limited to those permitted in the Pennsylvania Third Class City Code and the Home Rule Charter as detailed in **Note A**. The policy shall apply to all checking and savings accounts, operating funds, bond proceeds and other funds accounted for in the financial statements. The policy shall not apply to deferred compensation held by the third party administrators on behalf of the City of Erie for individual employees.

*Investment Custodial Credit Risk* – For an investment, custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2012, all of the City’s investments are held by the investment’s counterparty, not in the name of the City. The City does not have a formal policy limiting the amount of investments that can be held by counterparties.

*Accounts Receivable* – Accounts receivable represents the balance due to the City’s Sewer Revenue and Refuse and Recycling Funds as of December 31, 2012 for services provided through December 31, 2012, 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	\$ 1,577,153	\$ 2,512,200	\$ 94,579	\$ 4,183,932
Less: Allowance for Doubtful Accounts	(121,000)	(943,000)	-	(1,064,000)
Accounts Receivable, net	<u>\$ 1,456,153</u>	<u>\$ 1,569,200</u>	<u>\$ 94,579</u>	<u>\$ 3,119,932</u>

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

*Property Taxes Receivable and Unearned 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 \$32,588,926 on January 1, 2012 based on a gross assessed valuation of \$2,487,704,266 at 13.10 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, 2012. Current real estate taxes receivable at December 31, 2012 consists of the face value of the tax levy uncollected at December 31, 2012.

The receivable for outstanding delinquent tax levied at December 31, 2012 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, 2012. 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, 2012.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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

Balance Held by County Tax Claim Bureau for 2012	\$ 5,264,790
Cost Charged by the County for Collection of the Above	<u>(263,240)</u>
Total Property Tax Receivable	5,001,550
Allowance for Doubtful Accounts	(26,324)
Subsequent Receipts Received	(295,434)
Total Lien Receivable	91,203
Water Lease Payment	856,157
Tax Collection Fee	50,000
Other Unearned Revenue	19,403
Total Unearned Revenue	<u><u>\$ 5,696,555</u></u>

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

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

Estimated Share of December 31, 2012 Cash Balance	\$ -
Estimated Share of January and February 2013 Cash Receipts	<u>2,496,777</u>
Total Receivable	<u><u>\$ 2,496,777</u></u>

*Notes Receivable* – The City has made various loans to certain Erie businesses through the Bayfront Urban Development Action Grant, Community Development Block Grant, Enterprise Zone Loan Grant, and the Home Investment Partnership Program, four programs included with the Special Revenue Funds. The notes bear interest ranging from 1.0% to 5.0% with various maturities. During 2012, payments made to the City totaled \$1,260,143 representing \$986,351 of principal and \$273,792 of interest. The detailed activity is as follows:

Balance Outstanding at January 1, 2012	\$ 14,396,828
2012 Loans	2,318,054
2012 Write Offs	(404,657)
2012 Accrued Interest on Loans	99,509
Principal Repayments	<u>(986,351)</u>
Balance Outstanding at December 31, 2012	<u><u>\$ 15,423,383</u></u>

*Liens Receivable and Unearned 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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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	\$ 151,979	\$ 1,059,627	\$ 75,206
Less: Provision for Uncollectible Receivables	(60,776)	(580,763)	(23,339)
Net Lien Receivables	<u>\$ 91,203</u>	<u>\$ 478,864</u>	<u>\$ 51,867</u>

The lien receivables have been reported as unearned revenue to the extent not susceptible to accrual.

Unearned revenue for the General Fund, Special Revenue Fund, Capital Improvements Fund, and Enterprise Funds at December 31, 2012 is \$5,132,122; \$1,243,027; \$148,711 and \$9,322,808, 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.

2013	\$ 3,292,065
2014	3,440,208
2015	3,595,017
2016	3,600,000
2017 and thereafter	144,200,000
Total Future Lease Payments	<u>\$ 158,127,290</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

*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). The prepaid item in the Enterprise Fund was written off with the refinancing of the bonds in 2012.

*Capital Assets* – Capital asset activity for primary government – governmental activities for the year ended December 31, 2012 is shown as follows:

	<i>Primary Government</i>			
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	<i>Ending Balance</i>
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$ 13,997,450	\$ 7,700	\$ -	\$ 14,005,150
Depreciable Assets:				
Buildings and Improvements	9,718,826	375,247	-	10,094,073
Improvements Other than Building	2,810,459	120,876	-	2,931,335
Equipment and Vehicles	26,261,442	1,407,609	184,174	27,484,877
Infrastructure	46,409,154	6,249,445	-	52,658,599
Totals at Historical Cost	<u>99,197,331</u>	<u>8,160,877</u>	<u>184,174</u>	<u>107,174,034</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,757,600)	(183,227)	-	(6,940,827)
Improvements Other than Building	(1,629,408)	(92,351)	-	(1,721,759)
Equipment and Vehicles	(21,141,597)	(963,375)	(177,203)	(21,927,769)
Infrastructure	(21,188,656)	(2,216,043)	-	(23,404,699)
Total Accumulated Depreciation	<u>(50,717,261)</u>	<u>(3,454,996)</u>	<u>(177,203)</u>	<u>(53,995,054)</u>
Governmental Activities Capital Assets, net	<u>\$ 48,480,070</u>	<u>\$ 4,705,881</u>	<u>\$ 6,971</u>	<u>\$ 53,178,980</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Capital asset activity for primary government – business-type activities for the year ended December 31, 2012 is as follows:

	<i>Primary Government</i>			<i>Ending Balance</i>
	<i>Beginning Balance</i>	<i>Additions</i>	<i>Retirements</i>	
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$ 730,999	\$ -	\$ -	\$ 730,999
Depreciable Assets:				
Buildings and Improvements	127,181,938	6,200,985	-	133,382,923
Improvements Other than Building	36,173,302	-	-	36,173,302
Equipment and Vehicles	37,649,544	466,318	-	38,115,862
Infrastructure	4,655,662	362,907	-	5,018,569
Totals at Historical Cost	<u>206,391,445</u>	<u>7,030,210</u>	-	<u>213,421,655</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(87,577,416)	(4,431,909)	-	(92,009,325)
Improvements Other than Building	(25,648,901)	(463,734)	-	(26,112,635)
Equipment and Vehicles	(12,464,278)	(443,594)	-	(12,907,872)
Infrastructure	(1,246,559)	(124,230)	-	(1,370,789)
Total Accumulated Depreciation	<u>(126,937,154)</u>	<u>(5,463,467)</u>	-	<u>(132,400,621)</u>
Business-Type Activities Capital Assets, net	<u>\$ 79,454,291</u>	<u>\$ 1,566,743</u>	<u>\$ -</u>	<u>\$ 81,021,034</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 794,648
Public Safety	345,500
Highways and Streets	2,245,748
Economic and Community Development	69,100
Total Depreciation Expense - Governmental Activities	<u>\$ 3,454,996</u>
Business-Type Activities:	
Sewer	\$ 4,563,930
Refuse	288,083
Golf	66,591
Water	544,863
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,463,467</u>

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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 reports may 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:

	<i>Officers and Employees Retirement Plan</i>	<i>Police Relief and Pension Association</i>	<i>Firemen's Pension Fund</i>
Contribution rates:			
City	13.9%	23.2%	30.0%
Plan Members	7.4%	5.5%	6.3%
Annual Pension Cost	\$ 3,483,983	\$ 3,398,546	\$ 3,171,723
Contributions Made	\$ 3,259,771	\$ 3,398,546	\$ 3,171,726

*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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

*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>
<b>Officers and Employees Retirement Plan</b>			
12/31/09	\$ 3,278,202	105%	\$ -
12/31/10	3,142,218	90%	-
12/31/11	3,259,771	94%	-
<b>Police Relief and Pension Association</b>			
12/31/09	\$ 3,520,138	100%	\$ -
12/31/10	3,326,629	100%	-
12/31/11	3,398,546	100%	-
<b>Firemen's Pension Fund</b>			
12/31/09	\$ 3,176,285	100%	\$ -
12/31/10	3,110,528	100%	-
12/31/11	3,171,726	100%	-

*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):

	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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%	11.6	253.6%
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.

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

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, 2012, there were 434 active participants. Total contributions into the plans for 2012 were \$3,527,354.

*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 \$32,480,554 at December 31, 2012. 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.

### 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 \$160,000 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 \$50,000. At December 31, 2012, there were no material amounts of claims liabilities. In the current year, there was an electrical fire on a transformer at the waste water treatment plant. The total claim for the fire was \$291,067. The City paid the \$50,000 deductible and the remainder was covered by insurance. Settlement amounts have not exceeded insurance coverage for 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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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 2012, 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, 2012 to December 31, 2012:

	<u>2012</u>
Accrued Worker's Compensation, January 1	\$ 1,039,180
Current Year Claims	144,834
Claim Payments	(652,140)
Accrued Worker's Compensation, December 31	<u>\$ 531,874</u>

*Judgments Payable* – Judgments payable represent amounts of cases against the City which the City Solicitor has indicated will probably result in a liability to the City. The claims payable in the Internal Service Fund represents the open reserves for workers' compensation claims. The City is also involved in various other litigation claims related to property damage, personal injury, civil rights and other matters, which the City is vigorously defending. The individual cases range from \$5,000 to \$370,000. With regard to unsettled cases, the range of possible outcomes varies from remote to reasonably possible. The City's aggregate potential liability is \$470,000. This estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

*Designated for Future Catastrophic Losses* – The portion of unrestricted net assets designated for catastrophic losses represents an amount management feels will cover future losses that are anticipated to occur based on the City's insurance carriers opinion of projected future claims. The insurance carrier has based these projections on trend information developed from the City's claims history.

*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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

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, 2012 are as follows:

2013	\$	6,476,854
2014		6,482,901
2015		6,621,292
2016		6,639,026
2017		6,637,844

The lease rental payment for 2012 was \$6,548,190.

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, 2012. At December 31, 2012, there was one remaining lease payment due in 2013 in the amount of \$119,312.

*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. Outstanding principal of the 1998B Bonds in the amount of \$14,375,200 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$36,964,800 of the 1998B Bonds are included in the Government Activities Section of the Statement of Net Position.

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

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

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. In 2011, the balance of the 2001E Bonds was partially refunded by Series of 2011 bonds described below. The remainder of the 2001E Bonds was refunded by Series 2012 bonds described below. Outstanding principal of the 2001D and 2001F bonds at December 31, 2012 is \$390,000 and \$10,100,000, respectively. Outstanding principal, including compounded accreted value, of the 2001F Bond in the amount of \$2,828,000 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$7,272,000 of the 2001F Bond is included in the Governmental Activities Section of the Statement of Net Position.

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. The 2004A Bonds were partially refunded by the Series 2012 Bonds described below. Outstanding principal, including compounded accreted value, of the 2004A and 2004B bonds at December 31, 2012 is \$1,940,000, and \$400,000, respectively. Outstanding principal of the 2004A and B Bonds in the amount of \$2,340,000 is being classified in the Governmental Activities Section of the Statement of Net Position.

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 \$4,708,814 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$16,721,186 of the 2011 Bonds are included in the Government Activities Section of the Statement of Net Position.

On June 5, 2012, the City issued \$8,700,000 principal amount of Tax-Exempt General Obligation Bonds, Series of 2012, (the "2012 Bonds"). The 2012 Bonds were issued for the purpose of funding capital projects of the City, the current refunding, to the optional redemption date of May 15, 2012, of portions of the City's General

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Obligation Bonds, 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 providing funds for the costs of issuing the 2012 Bonds. The 2012 Bonds, maturing on November 15, 2012 through 2025 were issued as current interest bonds and will bear interest at varying rates from 0.60% to 3.10% from June 5, 2012. Interest is payable semiannually on May 15 and November 15 of each year, commencing November 15, 2012. Principal of the Bonds will be paid by the designated Paying Agent. Outstanding principal of the 2012 Bonds in the amount of \$1,329,656 is being classified as Proprietary Fund debt based on the nature of the uses of the funds and expected source of debt retirement. The remaining \$7,290,344 of the 2012 Bonds are included in the Government Activities Section of the Statement of Net Position.

The annual debt service requirements to maturity, including principal and interest, for the General Obligation Bonds as of December 31, 2012, are as follows:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>
2013	\$ 7,386,194	\$ 8,183,631
2014	7,056,583	8,402,258
2015	7,177,283	8,404,518
2016	7,590,472	8,004,438
2017-19	23,043,436	23,753,195
2020-22	22,657,165	24,715,047
2023-25	24,020,656	22,769,347
2026	7,957,875	10,380,049
Total Principal and Interest	106,889,664	114,612,483
Less: Interest, Other than Accreted Interest	10,418,021	17,042,196
Total Outstanding Liability	96,471,643	97,570,287
Less: Accreted Interest	20,304,579	20,003,133
Total General Obligation Bonds	<u>\$ 76,167,064</u>	<u>\$ 77,567,154</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, 2012, the amount of defeased debt outstanding and removed from the Statement of Net Position amounted to \$7,865,000.

Long-term liability activity for the year ended December 31, 2012 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>
<b>Governmental Activities:</b>					
Bonds, Loans and Leases Payable:					
General Obligation Bonds	\$ 101,501,406	\$ 7,358,000	\$ (12,507,076)	\$ 96,352,330	\$ 5,767,419
Leases Payable	238,623	-	(119,311)	119,312	119,312
	<u>101,740,029</u>	<u>7,358,000</u>	<u>(12,626,387)</u>	<u>96,471,642</u>	<u>5,886,731</u>
Less Bond Discount and Deferred Amount on Refunds	(22,388,457)	-	2,083,879	(20,304,578)	-
Total Bonds, Loans and Leases Payable	<u>79,351,572</u>	<u>7,358,000</u>	<u>(10,542,508)</u>	<u>76,167,064</u>	<u>5,886,731</u>
Other Liabilities:					
Compensated Absences	5,213,108	482,753	(380,768)	5,315,093	383,142
Total Other Liabilities	<u>5,213,108</u>	<u>482,753</u>	<u>(380,768)</u>	<u>5,315,093</u>	<u>383,142</u>
Governmental Activities Long-Term Liabilities	<u>\$ 84,564,680</u>	<u>\$ 7,840,753</u>	<u>\$ (10,923,276)</u>	<u>\$ 81,482,157</u>	<u>\$ 6,269,873</u>
<b>Business-Type Activities:</b>					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 84,399,710	\$ 29,117,000	\$ (32,851,724)	\$ 80,664,986	\$ 5,343,579
	<u>84,399,710</u>	<u>29,117,000</u>	<u>(32,851,724)</u>	<u>80,664,986</u>	<u>5,343,579</u>
Less Bond Discount and Deferred Amount on Refunds	(5,951,902)	(1,322,368)	4,176,438	(3,097,832)	-
Total Bonds and Loans Payable	<u>78,447,808</u>	<u>27,794,632</u>	<u>(28,675,286)</u>	<u>77,567,154</u>	<u>5,343,579</u>
Compensated Absences	263,310	-	(29,429)	233,881	16,859
Business-Type Activities Long-Term Liabilities	<u>\$ 78,711,118</u>	<u>\$ 27,794,632</u>	<u>\$ (28,704,715)</u>	<u>\$ 77,801,035</u>	<u>\$ 5,360,438</u>
<b>Component Unit:</b>					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 34,371,076	\$ 7,691,420	\$ (7,225,577)	\$ 34,836,919	\$ 1,115,389
Long-Term Loans	1,785,777	156,992	(11,586)	1,931,183	1,279,995
	<u>36,156,853</u>	<u>7,848,412</u>	<u>(7,237,163)</u>	<u>36,768,102</u>	<u>2,395,384</u>
Less Bond Discount and Deferred Amount on Refunds	(1,091,102)	(849,430)	-	(1,940,532)	-
Total Bonds and Loans Payable	<u>35,065,751</u>	<u>6,998,982</u>	<u>(7,237,163)</u>	<u>34,827,570</u>	<u>2,395,384</u>
Compensated Absences	-	-	-	-	-
Component Unit Long-Term Liabilities	<u>\$ 35,065,751</u>	<u>\$ 6,998,982</u>	<u>\$ (7,237,163)</u>	<u>\$ 34,827,570</u>	<u>\$ 2,395,384</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 is the same as 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 2012, the City paid \$856,962 to 58 former police officers, \$711,854 to 51 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, 2012 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	\$ -	\$ 1,330,089	\$ 943,453	\$ 2,273,542
Actual Amount Paid	-	856,962	711,854	1,568,816
Difference:	-	473,127	231,599	704,726
Total Unfunded Actuarial Accrued Liability (as of December 31, 2011)	16,816	9,394,746	10,803,614	20,215,176
Unfunded Actuarial Accrued Liability Additions from Current Year (as of December 31, 2012)	-	473,127	231,599	704,726
Total Unfunded Actuarial Accrued Liability (as of December 31, 2012)	<u>\$ 16,816</u>	<u>\$ 9,867,873</u>	<u>\$ 11,035,213</u>	<u>\$ 20,919,902</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, 2012 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	-
Capital Improvements	6,000	-
Sewer Revenue	15,254	173,265
Special Revenue	100	-
Refuse	97,320	27,515
Debt Service Fund:		
General	-	1,965,473
General Obligation Bond	24,831	-
Capital Improvements	-	35,913
Golf	172,618	-
Sewer Revenue	73,883	-
Sewer Revenue Fund:		
General	173,265	15,254
Debt Service	-	73,883
General Obligation Bond	-	87,035
Refuse Fund:		
General	27,515	97,320
Golf Fund:		
General	-	699,177
Internal Service	-	221,805
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	221,805	-
Special Revenue Fund:		
Capital Improvements	-	7,399
General	-	100
	<u>\$ 4,073,803</u>	<u>\$ 4,073,803</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. These bonds were partially refunded by the Variable Rate Demand Sewer Revenue Bonds, Series of 2011. Bonds outstanding at December 31, 2012 are \$6,849,967.

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. These bonds were refunded by the Sewer Revenue Bonds, Series A and B of 2012.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series of 2003, provided resources to construct a new parking garage and various improvements and are 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. A portion of this Series was partially refunded by the Series of 2006 and 2010 and fully refunded by the Series of 2012.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series of 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, 2012 are \$3,005,000.

The Erie Parking Authority's Guaranteed Parking Revenue Refunding Bonds, Series of 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. These bonds were partially refunded by the Series of 2010 Bonds. Bonds outstanding at December 31, 2012 are \$4,701,620.

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, 2012 are \$9,535,000.

## 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, 2012 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, 2012 are \$14,505,000.

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. These bonds were refunded by the Sewer Revenue Bonds, Series A and B of 2012.

The Erie Sewer Authority's Revenue Bonds, Series A and B of 2012 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, 2012 are \$26,310,000.

The Erie Parking Authority's Guaranteed Parking Revenue Bonds, Series of 2012 were issued to advance refund the Authority's Series of 2003 and provide resources for various projects. 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, 2012 are \$7,520,000.

### 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. 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

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

the City and HUD. The City is reporting this activity as Special Revenue Fund activity and the balance available for expenditure is presented appropriately. The balance available for expenditure at December 31, 2012 was \$1,083,556.

*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, 2012 was \$1,105,780.

### 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

#### *Governmental and HUD Program Funds*

At December 31, 2011, accounts payable was overstated by \$178,979. This restatement has the effect of increasing fund balance by \$178,979 for the HUD Programs Fund.

### Commitments and Contingencies

#### *Bonds*

At December 31, 2012, the City had bond proceeds from the 2011 Bonds and the 2012 Bonds remaining to spend on capital projects. The total left to spend was \$2,818,928 and \$694,033, respectively.

#### *APA Curb Ramp Program*

On April 19, 2007, the City was ordered by U.S. District Court, Western District Pennsylvania, through a settlement agreement to install curb ramps crossing city streets that intersect with state highways by the end of the year 2016. The total number of curb ramps required to be installed is 3,405. The total number of inventory ramps completed in years 2004 through 2012 was 2,672. The balance to be completed from 2013-2016 is 733, or 183 per year.

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

### *Other*

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2012, significant amounts of grant expenditures have not been audited by the grantor government, but the City believes that disallowed expenditures, if any, based on subsequent audits, will not have a material effect on the financial position of the City.

### *Litigation*

The City is involved in various lawsuits arising in the ordinary course of its municipal activities. Management believes that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the City.

### **Subsequent Events**

Subsequent to December 31, 2012, the City guaranteed debt of the Erie City Water Authority in the amount of \$8,915,618.

### **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. 65, *"Items Previously Reported as Assets and Liabilities."* Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions."* Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for the City's December 31, 2015 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 unearned 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, 2012, the carrying amount of the Authority's deposits was \$95,786 and the bank balance was \$123,692 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, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Real Property	<u>\$ 2,340,795</u>	<u>\$ 37,400</u>	<u>\$ 373,972</u>	<u>\$ 2,004,223</u>

Note: Ending balance does not include accumulated depreciation of \$4,685.

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

*Long-term Debt* – In November of 2003, the Authority borrowed \$180,000 from the City of Erie for the purchase of ten properties along West 17<sup>th</sup> and 18<sup>th</sup> Streets and to pay for various attorneys' fees. The properties serve as collateral for the loan. The loan bears a 3% interest rate; however, no interest has been accrued by the Authority. The Authority does not anticipate repayment of any portion of this loan within the next year; therefore the entire balance has been classified as long-term. As of December 31, 2012, 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 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, 2012, the outstanding balance was \$60,300 with \$5,389 due within one year.

*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 31, 2012 were calculated using the total compensation of eligible participants in the amount of \$136,491. Both the Authority and the covered employees made the required contributions, amounting to \$5,804 from the Authority and \$11,236 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, 2012, \$3,334,335 of the Authority's bank balance of \$4,310,020 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%	\$ 51,526
FNR 2003-35 5.0%	1,350
FHR 147 G 7.5%	979
FHR 1169 G 7.0%	998
PA Treasurer's INVEST Program for Local Governments	298,712
Various Money Market Balances	293,313
Total	<u>\$ 646,878</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, 2011</i>	<i>Additions</i>	<i>Reclassifications and Transfers</i>	<i>Dispositions</i>	<i>Balance June 30, 2012</i>
Land	N/A	\$ 1,446,123	\$ 226,158	\$ -	\$ -	\$ 1,672,281
Land Improvements	10-15	229,833	-	-	-	229,833
Buildings and Improvements	5-33	3,925,094	1,669,738	-	-	5,594,832
Buses and Vans	5-12	25,794,456	-	-	(994,502)	24,799,954
Fare Boxes	12	720,241	-	-	-	720,241
Vehicles and Equipment	4-7	570,940	-	-	(26,303)	544,637
Shop and Garage Equipment	5-12	995,390	70,648	-	(29,832)	1,036,206
Office Furniture and Equipment	4-10	441,872	3,508	-	(2,287)	443,093
Radio Equipment	10	545,686	-	-	-	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		484,871	-	-	-	484,871
Total		48,113,710	1,970,052	-	(1,052,924)	49,030,838
Less: Accumulated Depreciation		(25,828,223)	(2,659,699)	-	1,052,844	(27,435,078)
Net Investment in Transit System		<u>\$ 22,285,487</u>	<u>\$ (689,647)</u>	<u>\$ -</u>	<u>\$ (80)</u>	<u>\$ 21,595,760</u>

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

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

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, 2011 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, 2011 was 8 years for the Regular Plan and 11 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	04/30/10	395,694	102.93%	(285,602)
	04/30/11	412,236	93.97%	(260,760)
	04/30/12	425,474	92.18%	(227,489)
Supplemental Plan	04/30/10	74,424	112.91%	(192,667)
	04/30/11	98,538	106.28%	(198,856)
	04/30/12	99,789	109.88%	(208,715)

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, 2013. The line is unsecured and bears interest at the prime rate minus 1½%. There were no borrowings outstanding at June 30, 2012.

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	\$	6,096
Debt Service Reserve		2,599,393
Construction		325,753
Capital Improvements		1,553,522
Total Restricted Assets	\$	<u>4,484,764</u>

*Cash and Cash Equivalents* – 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 Investments – 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, 2012, the bank balance of the Authority's deposits that are exposed to custodial credit risk is \$4,409,397 and their carrying amount is \$4,411,967. 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>	
Federal Natl Mtge Assn Discount Note Maturing Within 2 Months	\$ -	\$ -	\$ 1,960,843	\$ 1,960,843
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,960,843</u>	<u>\$ 1,960,843</u>

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

Level 3 Investments – The following table sets forth a summary of changes in the fair value of the Authority's level 3 assets for the year ended December 31, 2012.

Balance, beginning of year	\$ 2,736,434
Investment income and realized gain	145,720
	<u>(921,311)</u>
	<u>\$ 1,960,843</u>

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

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Estimated useful lives are as follows:

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

A summary of property activity for 2012 is as follows:

	<i>Balance</i>				<i>Balance</i>
	<i>December 31, 2011</i>	<i>Additions</i>	<i>Dispositions</i>		<i>December 31, 2012</i>
Land	\$ 1,887,859	\$ -	\$ -		\$ 1,887,859
Parking Facilities	49,624,303	729,928	-		50,354,231
Meters and Collection Equipment	963,270	2,187	-		965,457
Other Equipment and Vehicles	678,859	37,621	59,833		656,647
Total Fixed Assets	53,154,291	769,736	59,833		53,864,194
Less: Accumulated Depreciation	(22,014,588)	(1,413,689)	(59,833)		(23,368,444)
Net Fixed Assets	\$ 31,139,703	\$ (643,953)	\$ -		\$ 30,495,750

*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, 2012 amounted to \$14,627.

*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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Annual Pension Cost and Net Pension Obligation	
Annual Required Contribution	\$ 13,967
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	(1,565)
Total Annual Pension Cost	<u>12,402</u>
Contributions Made	<u>(12,402)</u>
Change in Net Pension Obligation	-
Net Pension Obligation Beginning of Year	<u>-</u>
Net Pension Obligation End of Year	<u><u>\$ -</u></u>

The annual required contribution was determined as part of January 1, 2011 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>
12/31/09	\$ 14,536	100.0%	\$ 14,536
12/31/10	35,392	100.0%	35,392
12/31/11	36,206	100.0%	36,206

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 \$44,553 in 2012. Employee contributions to the Plan amounted to \$74,537 in 2012. At December 31, 2012, the plan has \$1,896 in forfeitures available to reduce future contributions by the Authority.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

*Long-Term Debt*– The Erie Parking Authority has entered into the following debt agreements with balances as of December 31, 2012:

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.	\$ 3,005,000
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.	4,701,620
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.	19,370,000
Series of 2012 Refunding Bonds secured by the Authority's revenue bearing interest at .85% to 3.15% with various maturities through September 1, 2026.	<u>7,520,000</u>
Outstanding Principal at December 31, 2012	34,596,620
Less: Original Issue Discount	(709,210)
Less: Deferred Amount of Refunding	(1,231,323)
Line of Credit	651,188
Less: Current Maturities	<u>(1,110,000)</u>
Total Long-Term Portion	<u><u>\$ 32,197,275</u></u>

The following summarizes the maturities due subsequent to December 31, 2012, for future debt obligation payments, including \$19,305,124 of interest:

2013	\$ 2,525,790
2014	2,529,570
2015	2,525,345
2016	2,528,058
2017	2,523,053
Thereafter	<u>41,269,928</u>
	<u><u>\$ 53,901,744</u></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. During the year ended December 31, 2012, the Authority defeased the remaining balance of the Series of 2003 by placing a portion of the proceeds of the Series of 2012 in an irrevocable trust with an escrow agent to provide for all future debt service payments on old bonds. As of December 31, 2012, \$3,625,000 of bonds outstanding are considered defeased.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

Erie Sewer Authority (Blended)

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

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

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

Category 1 includes bank balances insured or collateralized with securities held by the entity or its agent in the Authority's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the Authority's name. At December 31, 2012, all of the investment balances were in Category 3. The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

Disclosures Regarding Deposits and Investments:	
Deposits	\$ 16,372,437
Investments	3,290,189
Total	<u>\$ 19,662,626</u>
Balance Sheet Amounts:	
Cash and Cash Equivalents	
Unrestricted	\$ 210,221
Restricted	16,162,216
Total Cash and Cash Equivalents	<u>16,372,437</u>
Investments:	
Restricted	3,290,189
Total Investments	<u>\$ 19,662,626</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.

NOTE B – DETAIL NOTES – ALL FUNDS (continued)

*Long-Term Debt* – The Erie Sewer Authority has entered into the following debt agreements as of December 31, 2012:

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%.	9,535,000
Sewer Revenue Bonds, Series of 2010, bearing interest ranging from 3% to 5%.	14,505,000
Sewer Revenue Bonds, Series A and B of 2012, bearing interest ranging from .59% to 5%	<u>26,310,000</u>
Outstanding Principal at December 31, 2012	57,199,967
Less: Current Maturities	<u>(3,895,000)</u>
Total Long-Term Portion of Debt	\$ 53,304,967
Less: Deferred Amount on Refunding	751,102
Total Long-Term Debt, net of deferred amounts	<u><u>\$ 54,056,069</u></u>

The following summarizes the maturities due subsequent to December 31, 2012 for outstanding indebtedness of the Authority, including \$14,246,824 of interest:

2013	\$ 5,888,049
2014	5,893,546
2015	6,019,356
2016	6,035,478
2017	6,034,404
Thereafter	<u>58,650,991</u>
	<u><u>\$ 88,521,824</u></u>

*Derivative Settlement* – The Erie Sewer Authority received a notice in July 2012 from representatives of the twenty five Attorney Generals who filed a cause of action against JP Morgan Chase. The notice included an election to participate and release in regard to a settlement arising out of a lawsuit on swap transactions. The Erie Sewer Authority also received the same notice for a cause of action against Wachovia Bank. The Erie Sewer Authority participated in these settlements and received \$144,157.50 from Bank of NY Mellon on January 30, 2013 and \$74,130.03 from Wachovia Bank on February 7, 2013. These amounts have been included as accounts receivable in the financial statements for the year ended December 31, 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, 2012

**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	\$ 64.8	\$ 80.8	\$ 16.0	\$ 15.4	103.9%
January 1, 2008		<b>Biennial Valuation</b>			
January 1, 2009	\$ 70.6	\$ 88.8	\$ 18.2	\$ 16.1	113.0%
January 1, 2010		<b>Biennial Valuation</b>			
January 1, 2011	\$ 76.5	\$ 93.7	\$ 17.2	\$ 15.3	112.4%
January 1, 2012		<b>Biennial Valuation</b>			
<u>City of Erie Police Relief and Pension Association</u>					
January 1, 2007	\$ 72.6	\$ 94.3	\$ 21.7	\$ 9.5	228.4%
January 1, 2008		<b>Biennial Valuation</b>			
January 1, 2009	\$ 74.3	\$ 99.8	\$ 25.5	\$ 10.6	240.1%
January 1, 2010		<b>Biennial Valuation</b>			
January 1, 2011	\$ 78.4	\$ 107.8	\$ 29.4	\$ 11.6	253.6%
January 1, 2012		<b>Biennial Valuation</b>			
<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		<b>Biennial Valuation</b>			
January 1, 2009	\$ 56.0	\$ 78.7	\$ 22.7	\$ 7.8	291.0%
January 1, 2010		<b>Biennial Valuation</b>			
January 1, 2011	\$ 59.9	\$ 84.8	\$ 24.8	\$ 9.2	269.6%
January 1, 2012		<b>Biennial Valuation</b>			

**CITY OF ERIE, PENNSYLVANIA**  
**Budget Comparison Schedule - General Fund**  
**For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts*	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 43,371,398	\$ 43,371,398	\$ 43,772,259	\$ 400,861
Licenses and Permits	2,900,000	2,900,000	3,043,168	143,168
Intergovernmental	8,173,167	8,173,167	8,374,705	201,538
Charges for Services	382,650	382,650	449,074	66,424
Fines and Forfeits	1,472,000	1,472,000	1,400,965	(71,035)
Interest Income	80,000	80,000	66,959	(13,041)
Miscellaneous	295,000	295,000	237,625	(57,375)
Total Revenues	<u>56,674,215</u>	<u>56,674,215</u>	<u>57,344,755</u>	<u>670,540</u>
<b>EXPENDITURES</b>				
Current:				
General Government	14,407,473	14,403,438	11,687,374	2,716,064
Public Safety	36,734,247	36,738,282	36,563,179	175,103
Highways and Streets	8,072,532	8,072,532	8,144,354	(71,822)
Culture and Recreation	1,558,914	1,558,914	1,467,472	91,442
Economic and Community Development	51,350	51,350	1,130,443	(1,079,093)
Total Expenditures	<u>60,824,516</u>	<u>60,824,516</u>	<u>58,992,822</u>	<u>1,831,694</u>
Deficiency of Revenues Over Expenditures	<u>(4,150,301)</u>	<u>(4,150,301)</u>	<u>(1,648,067)</u>	<u>2,502,234</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating Transfers In	4,150,301	4,150,301	4,150,301	-
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources and (Uses)	<u>\$ 4,150,301</u>	<u>\$ 4,150,301</u>	<u>\$ 4,150,301</u>	<u>\$ -</u>
Excess of Revenues and Other Financing Sources Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	2,502,234	<u>\$ 2,502,234</u>
Recognition of Accrual Basis Adjustments			<u>261,090</u>	
Net Change in Fund Balance			2,763,324	
Fund Balance (Deficit), January 1, 2012			<u>10,160,624</u>	
Fund Balance (Deficit), December 31, 2012			<u>\$ 12,923,948</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, 2012**

**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 Fund, 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 Fund, 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 Fund, 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 budgets as previously submitted to City Council are 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 SUPPLEMENTARY INFORMATION

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

**Special Revenue Funds**

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

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

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

**Capital Projects Funds**

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

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

**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, 2012**

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total Non-Major Governmental Funds</u>
	<u>BUDAG Revolving Account Fund</u>	<u>Liquid Fuels Tax Fund</u>	<u>General Obligation Bond Fund</u>	<u>Paving and Sewer Revolving Fund</u>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,083,556	\$ 855,136	\$ 4,944,201	\$ 341,650	\$ 7,224,543
Investments	-	-	-	-	-
Restricted Cash and Cash Equivalents	-	-	-	-	-
Restricted Investments	-	-	-	-	-
Receivables, (net of allowance for uncollectibles):					
Liens	-	-	-	51,867	51,867
Interfund	-	-	87,035	-	87,035
Notes Receivable, (net of current obligation)	20,001	-	-	-	20,001
Total Assets	<u>\$ 1,103,557</u>	<u>\$ 855,136</u>	<u>\$ 5,031,236</u>	<u>\$ 393,517</u>	<u>\$ 7,383,446</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ 108,205	\$ 7,448	\$ -	\$ 115,653
Interfund Payable	-	-	24,831	-	24,831
Unearned Revenue	-	-	-	51,867	51,867
Total Liabilities	<u>-</u>	<u>108,205</u>	<u>32,279</u>	<u>51,867</u>	<u>192,351</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Long-Term Receivables	20,001	-	-	-	20,001
Committed:	-	-	-	341,650	341,650
Restricted:					
Economic and Community Development	1,083,556	-	-	-	1,083,556
Capital Projects	-	-	4,998,957	-	4,998,957
Liquid Fuels Tax	-	746,931	-	-	746,931
Total Fund Balances	<u>1,103,557</u>	<u>746,931</u>	<u>4,998,957</u>	<u>341,650</u>	<u>7,191,095</u>
Total Liabilities and Fund Equity	<u>\$ 1,103,557</u>	<u>\$ 855,136</u>	<u>\$ 5,031,236</u>	<u>\$ 393,517</u>	<u>\$ 7,383,446</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, 2012**

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total Non-Major Governmental Funds</u>
	<u>BUDAG Revolving Account Fund</u>	<u>Liquid Fuels Tax Fund</u>	<u>General Obligation Bond Fund</u>	<u>Paving and Sewer Revolving Fund</u>	
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ 2,009,983	\$ -	\$ -	\$ 2,009,983
Interest Earnings	1,990	4,603	42,273	453	49,319
Miscellaneous	-	45,864	-	-	45,864
Total Revenues	<u>1,990</u>	<u>2,060,450</u>	<u>42,273</u>	<u>453</u>	<u>2,105,166</u>
<b>EXPENDITURES</b>					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Highways and Streets	-	1,874,562	-	98,481	1,973,043
Culture and Recreation	-	-	-	-	-
Economic and Community Development	-	-	-	-	-
Capital Outlay	-	-	2,765,173	-	2,765,173
Total Expenditures	<u>-</u>	<u>1,874,562</u>	<u>2,765,173</u>	<u>98,481</u>	<u>4,738,216</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,990</u>	<u>185,888</u>	<u>(2,722,900)</u>	<u>(98,028)</u>	<u>(2,633,050)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating Transfers In	-	-	-	156,881	156,881
Operating Transfers (Out)	(35,949)	-	-	-	(35,949)
Proceeds from General Long-Term Debt	-	-	696,814	-	696,814
Total Other Financing Sources and Uses	<u>(35,949)</u>	<u>-</u>	<u>696,814</u>	<u>156,881</u>	<u>817,746</u>
Net Change in Fund Balance	(33,959)	185,888	(2,026,086)	58,853	(1,815,304)
Fund Balance, January 1, 2012	1,137,516	561,043	7,025,043	282,797	9,006,399
Fund Balance, December 31, 2012	<u>\$ 1,103,557</u>	<u>\$ 746,931</u>	<u>\$ 4,998,957</u>	<u>\$ 341,650</u>	<u>\$ 7,191,095</u>

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

**Proprietary Funds**

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

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

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Net Position**  
**Non-Major Proprietary Funds**  
**December 31, 2012**

	<u>Golf Fund</u>	<u>Sewer Reserve Fund</u>	<u>Total Non-Major Proprietary Funds</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 195,281	\$ 631,695	\$ 826,976
Total Current Assets	195,281	631,695	826,976
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	651,883	-	651,883
Less Accumulated Depreciation	(1,325,217)	-	(1,325,217)
Total Capital Assets, (net)	752,237	-	752,237
Net Pension Asset	11,279	-	11,279
Total Non-Current Assets	763,516	-	763,516
Total Assets	\$ 958,797	\$ 631,695	\$ 1,590,492
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 1,202	\$ -	\$ 1,202
Accrued Payroll and Related	3,479	-	3,479
Interfund Payable	1,093,601	-	1,093,601
Compensated Absences Payable	837	-	837
Due to Other Governments	316	-	316
Total Current Liabilities	1,099,435	-	1,099,435
Non-Current Liabilities:			
Compensated Absences Payable	10,779	-	10,779
Unearned Revenue	4,796	-	4,796
Total Non-Current Liabilities	15,575	-	15,575
Total Liabilities	1,115,010	-	1,115,010
<b>NET POSITION</b>			
Invested in Capital Assets	752,237	-	752,237
Unrestricted	(908,450)	631,695	(276,755)
Total Net Position	(156,213)	631,695	475,482
Total Liabilities and Net Position	\$ 958,797	\$ 631,695	\$ 1,590,492

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Non-Major Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Golf Fund	Sewer Reserve Fund	Total Non-Major Proprietary Funds
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 473,517	\$ -	\$ 473,517
Rental Income	88,487	-	88,487
Total Operating Revenues	<u>562,004</u>	<u>-</u>	<u>562,004</u>
<b>OPERATING EXPENSES</b>			
Personnel Services	247,540	-	247,540
Other Personnel Services	132,115	-	132,115
Services and Fees	30,303	-	30,303
Utilities	27,875	-	27,875
Rent	31,500	-	31,500
Insurance	5,700	-	5,700
Materials, Supplies, and Maintenance	72,427	-	72,427
Depreciation and Amortization	66,591	-	66,591
Other Expenses	5,473	-	5,473
Total Operating Expenses	<u>619,524</u>	<u>-</u>	<u>619,524</u>
Operating Loss	<u>(57,520)</u>	<u>-</u>	<u>(57,520)</u>
<b>NONOPERATING REVENUE</b>			
Intergovernmental Revenue	4,000	-	4,000
Investment Earnings	248	1,181	1,429
Contributions	14,000	-	14,000
Total Nonoperating Revenue	<u>18,248</u>	<u>1,181</u>	<u>19,429</u>
Change in Net Position	<u>(39,272)</u>	<u>1,181</u>	<u>(38,091)</u>
Net Position, January 1, 2012	<u>(116,941)</u>	<u>630,514</u>	<u>513,573</u>
Net Position, December 31, 2012	<u>\$ (156,213)</u>	<u>\$ 631,695</u>	<u>\$ 475,482</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 Refunds** – 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.

**Credit Card Account** – To account for credit card payments received by the City.

**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 Position**  
**Fiduciary Funds**  
**December 31, 2012**

	<i>Deferred Compensation Trust Fund</i>	<i>Officer's and Employees Pension Trust Fund</i>	<i>Police Pension Trust Fund</i>	<i>Firefighters' Pension Trust Fund</i>	<i>Total Pension Trust Funds</i>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ -	\$ 4,266,205	\$ 4,428,212	\$ 4,524,020	\$ 13,218,437
Investments, at Fair Value					
Commercial Mortgages	-	90,673	108,251	87,970	286,894
Exchange Traded Mutual Funds	-	7,543,260	7,032,132	5,482,260	20,057,652
Register Investment Companies - Mutual Funds	32,480,554	-	-	-	32,480,554
Corporate Bonds and Notes	-	11,756,105	10,256,819	8,025,457	30,038,381
United States Government and Agency Obligations	-	11,741,417	10,253,239	7,665,484	29,660,140
Common Stocks	-	39,201,512	35,430,773	28,339,600	102,971,885
Accrued Investment Income	-	221,582	195,120	151,029	567,731
Total Assets	<u>\$ 32,480,554</u>	<u>\$ 74,820,754</u>	<u>\$ 67,704,546</u>	<u>\$ 54,275,820</u>	<u>\$ 229,281,674</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ 171,208	\$ 6,640	\$ 177,848
Total Liabilities	<u>-</u>	<u>-</u>	<u>171,208</u>	<u>6,640</u>	<u>177,848</u>
<b>NET POSITION</b>					
Held in Trust for Employees' Pension Benefits	<u>32,480,554</u>	<u>74,820,754</u>	<u>67,533,338</u>	<u>54,269,180</u>	<u>229,103,826</u>
	<u>\$ 32,480,554</u>	<u>\$ 74,820,754</u>	<u>\$ 67,704,546</u>	<u>\$ 54,275,820</u>	<u>\$ 229,281,674</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2012**

	<i>Deferred Compensation Trust Fund</i>	<i>Officer's and Employees Pension Trust Fund</i>	<i>Police Pension Trust Fund</i>	<i>Firefighters' Pension Trust Fund</i>	<i>Total Pension Trust Funds</i>
<b>ADDITIONS TO NET POSITION</b>					
Contributions					
Employer	\$ -	\$ 1,813,400	\$ 2,698,115	\$ 2,618,602	\$ 7,130,117
City of Erie Water Authority	-	307,922	-	-	307,922
Plan Members	3,527,354	1,138,449	700,431	553,124	5,919,358
Total Contributions	<u>3,527,354</u>	<u>3,259,771</u>	<u>3,398,546</u>	<u>3,171,726</u>	<u>13,357,397</u>
Investment Earnings					
Net Appreciation in Fair Value of Investments	2,523,856	5,769,619	5,403,909	4,258,741	17,956,125
Interest and Dividends	462,370	1,964,979	1,781,615	1,379,125	5,588,089
Other Investment Income	-	-	-	4,632	4,632
Less: Investment Expenses	(102,214)	(352,764)	(324,198)	(261,528)	(1,040,704)
Total Investment Earnings	<u>2,884,012</u>	<u>7,381,834</u>	<u>6,861,326</u>	<u>5,380,970</u>	<u>22,508,142</u>
Other Income	-	-	6,599	-	6,599
Total Additions To Net Position	<u>6,411,366</u>	<u>10,641,605</u>	<u>10,266,471</u>	<u>8,552,696</u>	<u>35,872,138</u>
<b>DEDUCTIONS FROM NET POSITION</b>					
Benefits Paid	2,247,081	5,504,514	6,974,740	5,758,477	20,484,812
Participant Refunds	-	91,198	32,078	-	123,276
Administrative Expenses	-	94,309	69,520	45,641	209,470
Total Deductions From Net Position	<u>2,247,081</u>	<u>5,690,021</u>	<u>7,076,338</u>	<u>5,804,118</u>	<u>20,817,558</u>
Net Increase in Net Position	4,164,285	4,951,584	3,190,133	2,748,578	15,054,580
<b>NET POSITION HELD IN TRUST</b>					
Net Position, January 1, 2012	28,316,269	69,869,170	64,343,205	51,520,602	214,049,246
Net Position, December 31, 2012	<u>\$ 32,480,554</u>	<u>\$ 74,820,754</u>	<u>\$ 67,533,338</u>	<u>\$ 54,269,180</u>	<u>\$ 229,103,826</u>

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**December 31, 2012**

	Balance at January 1, 2012	Additions	Deductions	Balance at December 31, 2012
<b>TRAFFIC COURT REFUNDS</b>				
Assets				
Cash and Cash Equivalents	\$ 980	\$ 1,200	\$ 1,045	\$ 1,135
Liabilities				
Deposits Held in Trust	\$ 980	\$ 1,200	\$ 1,045	\$ 1,135
<b>CABLE TELEVISION SECURITY DEPOSIT</b>				
Assets				
Cash and Cash Equivalents	\$ 25,000	\$ -	\$ -	\$ 25,000
Liabilities				
Deposits Held in Trust	\$ 25,000	\$ -	\$ -	\$ 25,000
<b>UNCLAIMED MONIES</b>				
Assets				
Cash and Cash Equivalents	\$ 7,810	\$ 501	\$ 6,127	\$ 2,184
Liabilities				
Deposits Held in Trust	\$ 7,810	\$ 501	\$ 6,127	\$ 2,184
<b>CREDIT CARD ACCOUNT</b>				
Assets				
Cash and Cash Equivalents	\$ 10,191	\$ 527,479	\$ 526,028	\$ 11,642
Liabilities				
Deposits Held in Trust	\$ 10,191	\$ 527,479	\$ 526,028	\$ 11,642
<b>PROPERTY TAX</b>				
Assets				
Cash and Cash Equivalents	\$ 315,064	\$ 157,459	\$ 318,012	\$ 154,511
Liabilities				
Due to Other Governments	\$ 315,064	\$ 157,459	\$ 318,012	\$ 154,511

**CITY OF ERIE, PENNSYLVANIA**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)**  
**December 31, 2012**

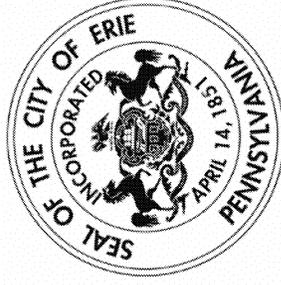
	Balance at January 1, 2012	Additions	Deductions	Balance at December 31, 2012
<b>COMMUNITY SERVICES</b>				
Assets				
Cash and Cash Equivalents	\$ 20,864	\$ 30,391	\$ 40,300	\$ 10,955
Liabilities				
Deposits Held in Trust	\$ 20,864	\$ 30,391	\$ 40,300	\$ 10,955
<b>FIRE INSURANCE ESCROW</b>				
Assets				
Cash and Cash Equivalents	\$ 197,429	\$ 87,602	\$ 129,951	\$ 155,080
Liabilities				
Deposits Held in Trust	\$ 197,429	\$ 87,602	\$ 129,951	\$ 155,080
<b>DICKSON TAVERN RENOVATIONS</b>				
Assets				
Cash and Cash Equivalents	\$ 500	\$ -	\$ -	\$ 500
Liabilities				
Deposits Held in Trust	\$ 500	\$ -	\$ -	\$ 500
<b>COUPON REDEMPTION</b>				
Assets				
Cash and Cash Equivalents	\$ 692	\$ 87,350	\$ 86,821	\$ 1,221
Liabilities				
Deposits Held in Trust	\$ 692	\$ 87,350	\$ 86,821	\$ 1,221
<b>OTHER</b>				
Assets				
Cash and Cash Equivalents	\$ 355,993	\$ 97,372,968	\$ 97,728,961	\$ -
Liabilities				
Due to Other Governments	\$ 355,993	\$ 97,372,968	\$ 97,728,961	\$ -
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets				
Cash and Cash Equivalents	\$ 934,523	\$ 98,264,950	\$ 98,837,245	\$ 362,228
Liabilities				
Deposits Held in Trust	\$ 263,466	\$ 734,523	\$ 790,272	\$ 207,717
Due to Other Governments	\$ 671,057	\$ 97,530,427	\$ 98,046,973	\$ 154,511
Total Liabilities	\$ 934,523	\$ 98,264,950	\$ 98,837,245	\$ 362,228

## STATISTICAL SECTION

**CITY OF ERIE, PENNSYLVANIA**

Net Position by Component

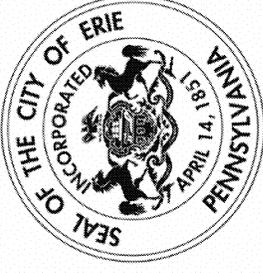
2012



	2010	2011	2012
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	\$ 18,761,730	\$ (26,401,502)	\$ (18,043,883)
Restricted	17,986,295	18,848,626	19,663,067
Unrestricted	9,204,027	26,568,196	28,977,448
Total governmental activities net position	<u>\$ 8,428,592</u>	<u>\$ 19,015,320</u>	<u>\$ 30,596,632</u>
<b>Business-type activities</b>			
Invested in capital assets, net of related debt	\$ 3,776,511	\$ 6,676,555	\$ 11,223,298
Restricted	29,590,724	26,560,700	18,565,716
Unrestricted	(1,911,924)	(1,703,195)	(5,552,991)
Total business-type activities net position	<u>\$ 31,455,311</u>	<u>\$ 31,534,060</u>	<u>\$ 24,236,023</u>
<b>Primary government</b>			
Invested in capital assets, net of related debt	\$ (14,985,219)	\$ (19,724,947)	\$ (6,820,585)
Restricted	47,577,019	45,409,326	38,228,783
Unrestricted	7,292,103	24,865,001	23,424,457
Total primary government net position	<u>\$ 39,883,903</u>	<u>\$ 50,549,380</u>	<u>\$ 54,832,655</u>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
**Changes in Net Position**  
**2012**



	2010	2011	2012
<b>Expenses</b>			
Governmental activities:			
General government	\$ 18,580,824	\$ 15,452,091	\$ 16,504,365
Public Safety	33,934,986	35,029,143	33,240,551
Highways and streets	9,397,287	10,876,880	11,895,343
Sanitation	371,341	-	-
Culture and Recreation	1,396,870	1,563,239	1,529,811
Economic and Community Development	6,534,114	2,096,077	3,949,299
Bond Issue and Other Related Costs	-	419,324	117,654
Other	141,960	31,879	191,490
Interest on long-term debt	5,570,820	4,886,870	3,482,242
<b>Total governmental activities expenses</b>	<u>\$ 75,928,202</u>	<u>\$ 70,355,503</u>	<u>\$ 70,910,755</u>
Business-type activities:			
Sewer	\$ 25,319,321	\$ 27,285,487	\$ 35,268,132
Water	554,755	553,095	544,863
Refuse	4,716,527	5,076,654	5,553,881
Other Proprietary Funds	590,217	542,035	619,524
<b>Total business-type activities expenses</b>	<u>\$ 31,180,820</u>	<u>\$ 33,457,271</u>	<u>\$ 41,986,400</u>
<b>Total primary government expenses</b>	<u>\$ 107,109,022</u>	<u>\$ 103,812,774</u>	<u>\$ 112,897,155</u>
<b>Program Revenues</b>			
Governmental activities:			
Program revenues:			
Charges for services	\$ 443,899	\$ 439,171	\$ 2,745,876
Grants and contributions	22,692,296	22,270,280	12,570,958
<b>Total governmental activities program revenues</b>	<u>\$ 23,136,195</u>	<u>\$ 22,709,451</u>	<u>\$ 15,316,834</u>
Business-type activities:			
Program revenues:			
Charges for services:	\$ 33,379,158	\$ 34,275,972	\$ 34,159,346
Operating grants and contributions	-	-	-
<b>Total business-type activities program revenues</b>	<u>\$ 33,379,158</u>	<u>\$ 34,275,972</u>	<u>\$ 34,159,346</u>
<b>Total primary government program revenues</b>	<u>\$ 56,515,353</u>	<u>\$ 56,985,423</u>	<u>\$ 49,476,180</u>

<b>Net (Expense)/Revenue</b>			
Governmental activities	\$ (52,792,007)	\$ (47,646,052)	\$ (50,629,096)
Business-type activities	2,198,338	818,701	(7,827,054)
Total primary government net expense	<u>\$ (50,593,669)</u>	<u>\$ (46,827,351)</u>	<u>\$ (58,456,150)</u>

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

Governmental activities:			
Taxes			
Property Taxes, General Purposes	\$ 27,878,519	\$ 25,740,804	\$ 27,838,656
Property Taxes, Debt Service	3,884,634	4,437,312	3,817,764
Income Taxes	12,829,246	15,457,013	14,572,768
Other taxes	971,528	970,805	947,596
Licenses and permits	2,565,151	2,771,535	2,995,909
Fines and penalties	1,734,819	2,213,147	1,368,425
Investment earnings	1,319,303	313,397	1,278,898
Transfers	5,198,433	5,366,499	4,150,302
Refunded Unearned Bond Interest	-	-	4,660,200
Miscellaneous	537,485	702,291	579,890
Total governmental activities	<u>\$ 56,919,118</u>	<u>\$ 57,972,803</u>	<u>\$ 62,210,408</u>
Business-type activities:			
Investment earnings	\$ 458,847	\$ 412,567	\$ 262,814
Lease Rental	3,095,955	3,225,772	3,361,432
Capital asset gains/(loss)	-	-	-
Miscellaneous	1,300,764	988,106	1,055,073
Transfers	(5,198,433)	(5,366,499)	(4,150,302)
Total business-type activities	<u>\$ (342,867)</u>	<u>\$ (740,054)</u>	<u>\$ 529,017</u>
Total primary government	<u>\$ 56,576,251</u>	<u>\$ 57,232,749</u>	<u>\$ 62,739,425</u>

**Change in Net Position**

Governmental activities	\$ 4,127,111	\$ 10,326,751	\$ 11,581,312
Business-type activities	1,855,471	78,647	(7,298,037)
Total primary government	<u>\$ 5,982,582</u>	<u>\$ 10,405,398</u>	<u>\$ 4,283,275</u>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Fund Balances

2012



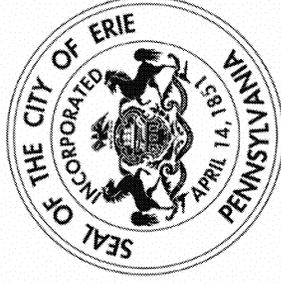
	2010	2011	2012
<b>General Fund</b>			
Assigned	\$ -	\$ 2,175,774	\$ 2,175,774
Restricted	784,493	1,491,276	
Unassigned	4,176,809	6,493,574	10,748,174
Total general fund	<u>\$ 4,961,302</u>	<u>\$ 10,160,624</u>	<u>\$ 12,923,948</u>
<b>All Other Governmental Funds</b>			
Nonspendable	\$ -	\$ 16,357,350	\$ 17,205,439
Committed	-	282,797	341,650
Restricted	16,126,659	19,597,759	19,267,815
Unassigned	11,943,232	(3,715,961)	(802,423)
Total all other governmental funds	<u>\$ 28,069,891</u>	<u>\$ 32,521,945</u>	<u>\$ 36,012,481</u>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Changes in Fund Balances

2012



	2010	2011	2012
<b>Revenues</b>			
Taxes	\$ 42,492,941	\$ 44,922,228	\$ 47,089,967
Licenses and permits	2,762,951	2,771,535	3,047,897
Intergovernmental	20,316,101	19,981,023	17,211,940
Charges for Services	443,899	439,171	451,228
Fines and penalties	1,421,604	1,440,853	1,393,511
Investment earnings	1,317,880	309,331	1,274,973
Payment in Lieu of Taxes	910,106	918,290	1,017,456
Miscellaneous	519,981	711,929	608,301
<b>Total Revenues</b>	<b>\$ 70,185,463</b>	<b>\$ 71,494,360</b>	<b>\$ 72,095,273</b>
<b>Expenditures</b>			
Current:			
General government	\$ 7,918,476	\$ 8,005,298	\$ 7,165,310
Public Safety	36,394,189	37,016,985	36,870,048
Highways and streets	12,537,722	15,196,578	14,320,558
Sanitation	487,770	-	-
Culture and Recreation	1,422,328	1,563,239	1,561,734
Economic and Community Development	9,049,692	4,145,305	3,824,148
Capital Outlay	165,693	1,951,553	3,346,673
Debt Service:			
Principal	5,606,021	6,042,129	6,531,039
Interest	2,570,295	1,973,667	1,946,553
<b>Total Expenditures</b>	<b>\$ 76,152,186</b>	<b>\$ 75,894,754</b>	<b>\$ 75,566,063</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>\$ (5,966,723)</b>	<b>\$ (4,400,394)</b>	<b>\$ (3,470,790)</b>

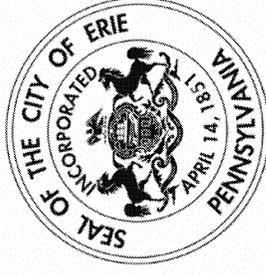
**Other Financing Sources and (Uses)**

Operating Transfers In	\$ 7,615,918	\$ 5,610,089	\$ 4,450,290
Operating Transfers (Out)	(2,417,485)	(243,590)	(313,098)
Original Bond Issuance Costs	-	(546,128)	(282,172)
Other Bond-Related Expenditures	-	(384,622)	-
Refunded Payment to Escrow	-	(8,672,600)	(6,330,331)
Proceeds from Refunding Long-Term Debt	-	8,672,600	7,360,782
Refunded Deferred Bond Interest	-	9,535,000	4,660,200
Total Other Financing Sources and (Uses)	<u>\$ -5,198,433</u>	<u>\$ 13,970,749</u>	<u>\$ 9,545,671</u>
Net Change in Fund Balances	<u>\$ (768,290)</u>	<u>\$ 9,570,355</u>	<u>\$ 6,074,881</u>
Debt service as a % of noncapital expenditures	10.76%	10.84%	11.74%

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Assessed Value and Estimated Actual Value of Taxable Property  
2012



Fiscal Year	Residential Property	Commercial Property	Industrial Property	Tax Exempt Property	Total Taxable		Total Direct Tax Rate
					Assessed Value	Value	
2010	\$ 1,842,504,645	\$ 583,492,507	\$ 94,928,870	\$ 1,074,893,447	\$ 2,520,926,022	\$	11.45
2011	\$ 1,840,457,190	\$ 576,756,029	\$ 94,310,970	\$ 1,077,606,028	\$ 2,511,524,189	\$	11.45
2012	\$ 1,837,570,018	\$ 565,263,179	\$ 84,870,112	\$ 1,082,283,188	\$ 2,487,703,309	\$	13.10

Source: County Assessment office

**CITY OF ERIE, PENNSYLVANIA**

Direct and Overlapping Property Tax Rates

2012

(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>
2010	10.05	1.40	11.45
2011	9.85	1.60	11.45
2012	11.52	1.58	13.10

**Overlapping Rates**

<u>Erie School District</u>	<u>Erie County</u>
17.07	6.05
17.80	6.05
18.76	6.05

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Principal Property Tax Payers

2012



<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Erie Insurance	20,925,117	0.84%
Baldwin Bros et al	13,599,065	0.55%
Four C's LLS	8,597,500	0.35%
Penelec	8,507,600	0.34%
Levin Adam et al	8,277,950	0.33%
Bayside Development	7,510,981	0.30%
Missouri River Corp	7,400,000	0.30%
Albert M. Covelli Trust	7,117,100	0.29%
Lord Corp Inland	7,107,060	0.29%
SE	6,510,000	0.26%
	\$ 95,552,373	3.84%

Source: Erie County Assessment Office

**CITY OF ERIE, PENNSYLVANIA**

Property Tax Levies and Collections

2012



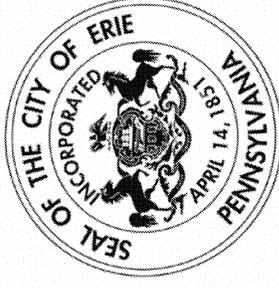
<b>Fiscal Year</b>	<b>Taxes Levied in Fiscal Year</b>	<b>Collected within Fiscal Year</b>	<b>Percentage of Levy</b>	<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	<b>Percentage of Levy</b>
2010	\$ 28,864,603	\$ 25,848,432	89.55%	\$ 2,719,942	\$ 28,568,374	98.97%
2011	\$ 28,756,952	\$ 25,733,101	89.48%	\$ 1,992,788	\$ 27,725,889	96.41%
2012	\$ 32,588,913	\$ 29,121,160	89.36%		\$ 29,121,160	89.36%

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

**CITY OF ERIE, PENNSYLVANIA**

Ratios of Outstanding Debt by Type

2012



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			
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
2012	\$ 76,167,064	\$ -	\$ 19,446,352	\$ -	\$ 95,613,416	2.82%	\$ 946.23

\*Does not include blended component general obligation bonds.

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**  
 Ratios of General Bonded Debt Outstanding  
 2012



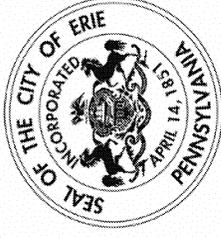
<u>General Bonded Debt Outstanding</u>				<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Other Bonds (Revenue, Special Assessment, etc.)</u>	<u>Total</u>		
2010	\$ 93,543,852	\$ -	\$ 93,543,852	3.71%	\$ 919.02
2011	\$ 98,908,258	\$ -	\$ 98,908,258	3.94%	\$ 971.53
2012	\$ 95,613,416	\$ -	\$ 95,613,416	3.84%	\$ 946.23

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Direct and Overlapping Governmental Activities Debt

2012



Governmental Unit	Debt Outstanding 2011	Less: Amounts Available in Debt Service Fund 2012	Classified as Proprietary Fund Use	Classified as General Fund Use	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt Total 2012
City of Erie	\$ 35,922,898	\$ (1,670,904)	\$ 6,552,600	\$ 31,041,202	100.00%	\$ 37,593,802
1998 General Obligation Bond (B)	13,867,056	(765,627)	-	14,632,683	100.00%	14,632,683
2001 General Obligation Bond (C)	4,470,000	4,080,000	-	390,000	100.00%	390,000
2001 General Obligation Bond (D)	3,050,000	3,050,000	-	-	100.00%	-
2001 General Obligation Bond (E)	10,600,000	500,000	2,828,000	7,272,000	100.00%	10,100,000
2004 General Obligation Bond (F)	6,300,000	4,360,000	-	1,940,000	100.00%	1,940,000
2004 General Obligation Bond (A)	645,000	245,000	-	400,000	100.00%	400,000
2004 General Obligation Bond (B)	23,335,000	1,905,000	4,714,600	16,715,400	100.00%	21,430,000
2011 General Obligation Bond	-	-	1,330,066	7,289,934	100.00%	8,620,000
2012 General Obligation Bond	238,623	119,292	-	119,331	100.00%	119,331
Leases						
<b>Total City Direct Debt</b>	<b>\$ 98,498,577</b>	<b>\$ 11,892,761</b>	<b>\$ 15,425,266</b>	<b>\$ 79,800,550</b>		<b>\$ 95,225,816</b>
County of Erie	\$ 30,552,981	\$ (47,849,823)	\$ -	\$ 78,402,804	40.00%	\$ 31,361,122
Erie School District	102,603,346	(12,805,306)	-	115,408,652	100.00%	115,408,652
Erie Sewer Authority	40,812,914	(17,138,155)	-	57,951,069	70.00%	40,565,748
Erie Parking Authority	32,652,361	1,565,086	-	31,087,275	100.00%	31,087,275
Erie Water Authority	133,325,310	(129,460,020)	-	262,785,330	70.00%	183,949,731
<b>Total Overlapping Debt</b>	<b>\$ 339,946,912</b>	<b>\$ (205,688,218)</b>	<b>\$ -</b>	<b>\$ 545,635,130</b>		<b>\$ 402,372,528</b>
<b>Total Direct and Overlapping Debt</b>						<b>\$ 497,598,344</b>

Source: City of Erie Finance Office

**CITY OF ERIE, PENNSYLVANIA**

Computation of Legal Debt Margin  
2012



**Nonelectoral Debt Incurring Capacity:**

Borrowing base(1)	\$	90,106,163
Percentage limitation		250
Net nonelectoral debt limit	\$	225,265,408
Less: net nonelectoral debt incurred		95,225,816
Add: current principal appropriation		7,048,109
Remaining nonelectoral debt incurring capacity	\$	137,087,700

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

Borrowing base(1)	\$	90,106,163
Percentage limitation		350
Net nonelectoral plus lease rental debt limit	\$	315,371,571
Less: net nonelectoral debt plus lease rental debt incurred		184,264,160
Add: current principal appropriation		12,053,109
Remaining nonelectoral plus lease rental debt incurring capacity	\$	143,160,519

(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

2012



Year:	2010	2011	2012
Population *	101,786	101,807	101,047
Personal Income (thousands of dollars)	3,319,750	3,303,128	3,389,521
Median Household Income(dollars)	32,615	32,445	33,544
Median Age	33.2	34.8	33.6
High School Graduate, % of persons age 25+	86.8	85.4	86.3
Bachelor's degree or higher, % of persons age 25+	19.4	19.5	20.3
Unemployment Rate	9.40%	8.00%	7.80%

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

2012



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	3.29%
UPMC Hamot	Healthcare	3,400	2.60%
Saint Vincent Health Center	Health Care	3,000	2.30%
Pennsylvania State Government	State Government	3,000	2.30%
*Wal-Mart	Department Store Chain	1,600	1.22%
Barber National Institute	Special Education Facility	1,500	1.15%
Erie School District	Public School Facility	1,300	0.99%
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  
2012



<u>Function/Department</u>	<u>Full-time Employees</u>		
	2010	2011	2012
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	173	173	173
Civilians	26	26	26
Fire			
Firefighters and Officers	135	135	134
Civilians	4	4	4
Public Works			
Code Enforcement	14	14	14
Engineering	6	6	6
Streets	47	47	47
Parks & Recreation	11	11	11
Golf	2	2	2
Refuse	32	32	32
Sewer	88	89	89
Other	37	37	37
Total:	639	640	639

Source: City of Erie Finance Office

This Page Intentionally Left Blank