

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ERIE DOWNTOWN:
AN IMPROVEMENT DISTRICT ASSOCIATION
December 31, 2007 and 2006**

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Report of Independent Certified Public Accountants

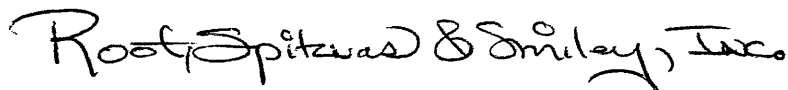
Board of Directors

Erie Downtown: An Improvement District Association

We have audited the accompanying statement of financial position of Erie Downtown: An Improvement District Association as of December 31, 2007 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Erie Downtown: An Improvement District Association as of December 31, 2006, were audited by other auditors whose report dated May 1, 2007, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Erie Downtown: An Improvement District Association as of December 31, 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



ROOT, SPITZNAS & SMILEY, INC.

Erie, Pennsylvania
August 8, 2008

FINANCIAL STATEMENTS

Erie Downtown: An Improvement District Association

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash (Note A)	\$ 186,964	\$ 233,244
Accounts receivable (Note A)	70,396	75,957
Prepaid items	<u>8,237</u>	<u>3,565</u>
Total current assets	265,597	312,766
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, AT COST		
(Note A)	180,113	149,496
Less accumulated depreciation	<u>102,439</u>	<u>69,579</u>
	<u>77,674</u>	<u>79,917</u>
	<u>\$ 343,271</u>	<u>\$ 392,683</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,036	\$ 7,753
Accrued payroll and related items	14,086	-
Accrued other	<u>5,800</u>	<u>-</u>
Total current liabilities	22,922	7,753
UNRESTRICTED NET ASSETS	<u>320,349</u>	<u>384,930</u>
	<u>\$ 343,271</u>	<u>\$ 392,683</u>

The accompanying notes are an integral part of these statements.

Erie Downtown: An Improvement District Association

STATEMENTS OF ACTIVITIES

Year ended December 31,

	<u>2007</u>	<u>2006</u>
Revenue		
Assessments (Note A)	\$ 387,088	\$ 422,291
Special revenues and sponsorships	34,000	38,500
Donated goods and services	30,150	43,605
Gain on sale of assets	171	-
Investments Income	<u>2,763</u>	<u>1,125</u>
 Total Revenues	 <u>454,172</u>	 <u>505,521</u>
 Expenses		
Program services:		
Urban design and environment	168,823	119,387
Special events	106,873	101,818
Image	<u>30,403</u>	<u>17,493</u>
Total program services	306,099	238,698
 Support services:		
Administrative	<u>212,654</u>	<u>168,984</u>
 Total Expenses	 <u>518,753</u>	 <u>407,682</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 (64,581)	 97,839
 Unrestricted net assets at beginning of year	 <u>384,930</u>	 <u>287,091</u>
 Unrestricted net assets at end of year	 <u>\$ 320,349</u>	 <u>\$ 384,930</u>

The accompanying notes are an integral part of these statements.

Erie Downtown: An Improvement District Association

STATEMENTS OF FUNCTIONAL EXPENSES
Year ended December 31,

Expenses	Program Services					
	Urban Design & Environment		Special Events		Image	
	2007	2006	2007	2006	2007	2006
Salaries and bonuses	\$ 71,867	\$ 51,822	\$ -	\$ -	\$ -	\$ -
Payroll taxes	6,171	3,870	-	-	-	-
Payroll service	-	105	-	-	-	-
Office supplies	-	-	-	-	25	-
Dues and subscriptions	-	69	-	-	1,000	-
Communications	-	-	-	-	-	75
Equipment rental	-	-	-	-	-	-
Insurance	6,847	5,245	-	-	-	-
Postage and delivery	-	-	-	-	-	-
Printing	-	-	837	-	-	1,648
Professional fees	-	12,500	-	-	-	2,745
Office space rental	-	-	-	-	-	-
Training and conferences	-	-	-	933	-	-
Travel and Entertainment	-	-	-	-	-	-
Hospitality, flowers and gifts	-	16	-	-	-	-
Donated goods and services	-	-	30,150	43,605	-	-
Special event expense	-	-	63,951	54,155	-	1,119
Street scape	20,786	1,502	-	-	-	-
Marketing	-	-	8,809	-	16,178	1,906
State registration fees	-	-	-	-	-	-
Interest expense	-	1,355	-	-	-	-
Maintenance	31,779	18,876	-	-	-	-
Bank charges	-	-	-	-	-	-
Sponsorships	-	-	-	-	13,200	10,000
Bab debts	-	-	-	-	-	-
Depreciation	<u>31,373</u>	<u>24,027</u>	<u>3,126</u>	<u>3,125</u>	<u>-</u>	<u>-</u>
Total Functional Expenses	<u>\$168,823</u>	<u>\$119,387</u>	<u>\$106,873</u>	<u>\$101,818</u>	<u>\$ 30,403</u>	<u>\$ 17,493</u>

The accompanying notes are an integral part of these statements.

<u>Total Program Services</u>		<u>Support Services Administrative</u>		<u>Total Expenses</u>	
<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
\$ 71,867	\$ 51,822	\$ 79,217	\$ 73,821	\$ 151,084	\$ 125,643
6,171	3,870	6,802	5,514	12,973	9,384
-	105	637	486	637	591
25	-	2,233	5,766	2,258	5,766
1,000	69	2,299	3,101	3,299	3,170
-	75	7,092	6,617	7,092	6,692
-	-	3,109	2,949	3,109	2,949
6,847	5,245	6,079	9,511	12,926	14,756
-	-	2,072	1,268	2,072	1,268
837	1,648	424	577	1,261	2,225
-	15,245	6,346	6,882	6,346	22,127
-	-	23,848	17,377	23,848	17,377
-	933	4,007	2,211	4,007	3,144
-	-	1,962	1,377	1,962	1,377
-	16	3,195	581	3,195	597
30,150	43,605	-	-	30,150	43,605
63,951	55,274	60	13,175	64,011	68,449
20,786	1,502	-	550	20,786	2,052
24,987	1,906	6,914	48	31,901	1,954
-	-	900	-	900	-
-	1,355	-	1,104	-	2,459
31,779	18,876	1,721	-	33,500	18,876
-	-	420	-	420	-
13,200	10,000	-	-	13,200	10,000
-	-	50,537	12,794	50,537	12,794
<u>34,499</u>	<u>27,152</u>	<u>2,780</u>	<u>3,275</u>	<u>37,279</u>	<u>30,427</u>
<u>\$ 306,099</u>	<u>\$238,698</u>	<u>\$ 212,654</u>	<u>\$ 168,984</u>	<u>\$518,753</u>	<u>\$407,682</u>

Erie Downtown: An Improvement District Association

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in unrestricted net assets	(\$ 64,581)	\$ 97,839
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	37,279	30,427
Gain on sale of assets	(171)	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	5,561	(49,309)
Increase in prepaid items	(4,672)	(581)
Increase (decrease) in accounts payable and accrued items	<u>15,169</u>	<u>(8,143)</u>
Net cash (used in) provided by operating activities	<u>(11,415)</u>	<u>70,233</u>
 Cash flows from investing activities:		
Additions to equipment	(40,085)	(887)
Proceeds from sale of equipment	<u>5,220</u>	<u>-</u>
Net cash used in investing activities	<u>(34,865)</u>	<u>(877)</u>
 Cash flows from financing activities:		
Payments on note payable	<u>-</u>	<u>(59,082)</u>
Net cash used in financing activities	<u>-</u>	<u>(59,082)</u>
 Net (decrease) increase in cash (Note A)	(46,280)	10,264
Cash at beginning of year	<u>233,244</u>	<u>222,980</u>
Cash at end of year	<u>\$186,964</u>	<u>\$ 233,244</u>
 <u>Cash paid during the year for interest</u>	<u>\$ -</u>	<u>\$ 1,355</u>

The accompanying notes are an integral part of these statements.

Erie Downtown: An Improvement District Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying combined financial statements follows:

1. Organization and Activities

Erie Downtown: An improvement District Association (Association) is a neighborhood improvement district, designated by the City Council of the City of Erie, Pennsylvania. The sunset provision of the ordinance creating the Association provides for the termination of the Association on or before July 1, 2009(unless re-authorized by Erie, Pennsylvania City Council) or dissolution proposed by the majority of voting board members. The Association serves the property owners of the City of Erie in the downtown district. The downtown district spans from the shoreline of Lake Erie south to the 14th street bridges and from the west side of Holland Street to the east side of Sassafra Street.

The Association's purposes is to assist property owners in making improvements and providing increased and expanded services with the established district. This includes, but is not limited to, those services which improve the ability of commercial establishments within the district to serve the consumer and the promotion of activities to bring consumers to the downtown district.

2. Financial Statement Presentation and Method of Accounting

The financial statements are presented in accordance with Statement of Financial Accounting Standard No. 117, "Financial Statements of Not-For-Profit Organizations," which requires the Association to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Association considers all its revenues to be unrestricted.

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles

3. Use of Estimates in Financial Statements and Cash Equivalents

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Erie Downtown: An Improvement District Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Income Tax Status

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 and related State of Pennsylvania Code.

5. Equipment and Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method is used for financial and income tax reporting purposes. The estimated service lives of the equipment range from five to seven years. Equipment consist of :

	<u>2007</u>	<u>2006</u>
Furniture and Fixtures	\$ 29,138	\$ 29,138
Computers	6,039	6,039
Other Equipment	<u>144,936</u>	<u>114,319</u>
	<u>\$180,113</u>	<u>\$149,496</u>

6. Donated Goods and Services

Significant goods and services are donated to the association by various community individuals and organizations to advance the Association's programs and objectives. The value of certain of these services have not been recorded in the financial statements because they do not meet the definition for recognition under Statement of Financial Accounting Standard No. 116, "Accounting for Contributions Received and Contributions Made." Those goods and services that do meet this definition are specialized in nature and are recorded in the accompanying financial statements as "Advertising" amounting to \$30,150 and \$43,605 in 2007 and 2006, respectively.

7. Revenue and Allowance for Doubtful Accounts

The Association levies an assessment of .25% on the taxable value of each property owner's real estate within the district. Tax-exempt real estate property owners have an option to sign financial contribution contracts with the Association.

Bad debts are recognized on the allowance method based upon historical experience and management's evaluation of outstanding accounts receivable. At December 31, 2007 and 2006 the Association allowance for doubtful accounts amounted to zero and \$ 12,500.

Erie Downtown: An Improvement District Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents

9. Concentration of Credit Risk

The Association maintains cash balances in excess of \$100,000 with its bank, which are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2007 and 2006 the Association's uninsured cash balances amounted to \$107,324 and \$88,363, respectively. Most of these accounts earned interest at the rate of 3.6% and 2.37% at December 31, 2007 and 2006 respectively.

10. Functional Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates made by the Association's management and various internal records.

NOTE B - LEASE COMMITMENT

The Association is obligated under an operating lease to rent its office facilities for a five-year period, expiring September 30, 2009, at minimum annual rental charges of \$16,740 in 2006, \$17,820 in 2007, \$18,360 in 2008 and \$12,960 in 2009. The Association is responsible to pay maintenance, insurance and other occupancy expenses under the agreement. The Association is also committed under certain other monthly equipment operating leases which are subject to renewal annually.

NOTE C - FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2006 statement of functional expenses have been reclassified to conform to the 2007 presentation.

NOTE D - SUBSEQUENT EVENT

On February 20, 2008 the organization amended their bylaws and changed the organization's name from Erie Downtown: An Improvement District Association to Erie Downtown Partnership.