

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ERIE DOWNTOWN PARTNERSHIP
(FORMERLY ERIE DOWNTOWN :
AN IMPROVEMENT DISTRICT ASSOCIATION)
December 31, 2008 and 2007**

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Report of Independent Certified Public Accountants

Board of Directors

Erie Downtown Partnership (Formerly Erie Downtown: An Improvement District Association)

We have audited the accompanying statements of financial position of Erie Downtown Partnership (Formerly Erie Downtown: An Improvement District Association) as of December 31, 2008 and 2007 and the related statements of activities, functional expenses and cash flows for the years 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.

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 Partnership (formerly Erie Downtown: An Improvement District Association) as of December 31, 2008 and 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.
ROOT, SPITZNAS & SMILEY, INC.

Erie, Pennsylvania
October 28, 2009

FINANCIAL STATEMENTS

Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)

STATEMENTS OF FINANCIAL POSITION
December 31,

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (Note A) | \$ 319,662 | \$ 186,964 |
| Accounts receivable (Note A) | 85,913 | 70,396 |
| Prepaid items | <u>6,150</u> | <u>8,237</u> |
| Total current assets | 411,725 | 265,597 |
| EQUIPMENT, AT COST (Note A) | | |
| Less accumulated depreciation | 174,213 | 180,113 |
| | <u>133,593</u> | <u>102,439</u> |
| | <u>40,620</u> | <u>77,674</u> |
| | <u>\$ 452,345</u> | <u>\$ 343,271</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 34,816 | \$ 3,036 |
| Accrued payroll and related items | 14,863 | 14,086 |
| Accrued other | <u>12,811</u> | <u>5,800</u> |
| Total current liabilities | 62,490 | 22,922 |
| UNRESTRICTED NET ASSETS | | |
| | <u>389,855</u> | <u>320,349</u> |
| | <u>\$ 452,345</u> | <u>\$ 343,271</u> |

The accompanying notes are an integral part of these statements.

Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)

STATEMENTS OF ACTIVITIES
Year ended December 31,

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Revenue | | |
| Assessments (Note A) | \$ 420,369 | \$ 387,088 |
| Special revenues and sponsorships | 32,100 | 34,000 |
| Donated goods and services | 30,250 | 30,150 |
| Gain (Loss) on sale of assets | (1,147) | 171 |
| Investments Income | <u>5,166</u> | <u>2,763</u> |
| Total Revenues | <u>486,738</u> | <u>454,172</u> |
| Expenses | | |
| Program services: | | |
| Design | 119,491 | 168,823 |
| Special events | 77,472 | 106,873 |
| Promotion | <u>10,000</u> | <u>30,403</u> |
| Total program services | 206,963 | 306,099 |
| Support services: | | |
| Administrative | <u>210,269</u> | <u>212,654</u> |
| Total Expenses | <u>417,232</u> | <u>518,753</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | 69,506 | (64,581) |
| Unrestricted net assets at beginning of year | <u>320,349</u> | <u>384,930</u> |
| Unrestricted net assets at end of year | <u>\$ 389,855</u> | <u>\$ 320,349</u> |

The accompanying notes are an integral part of these statements.

**Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)**

**STATEMENTS OF FUNCTIONAL EXPENSES
Year ended December 31,**

| Expenses | Program Services | | | | | |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|
| | Design | | Special Events | | Promotion | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Salaries and bonuses | \$ 60,315 | \$ 71,867 | \$ - | \$ - | \$ - | \$ - |
| Payroll taxes & Pension | 5,563 | 6,171 | - | - | - | - |
| Payroll service | - | - | - | - | - | - |
| Office expenses | - | - | - | - | - | 25 |
| Dues and subscriptions | - | - | - | - | - | 1,000 |
| Communications | - | - | - | - | - | - |
| Equipment rental | - | - | - | - | - | - |
| Insurance | 8,853 | 6,847 | - | - | - | - |
| Postage and delivery | - | - | - | - | - | - |
| Printing | - | - | - | 837 | - | - |
| Professional fees | - | - | - | - | - | - |
| Office space rental | - | - | - | - | - | - |
| Training and conferences | 30 | - | - | - | - | - |
| Travel and Entertainment | - | - | - | - | - | - |
| Hospitality, flowers and gifts | - | - | - | - | - | - |
| Donated goods and services | - | - | 30,250 | 30,150 | - | - |
| Special event expense | - | - | 44,041 | 63,951 | - | - |
| Street scape | 405 | 20,786 | - | - | - | - |
| Marketing | - | - | 475 | 8,809 | - | 16,178 |
| State registration fees | - | - | - | - | - | - |
| Interest expense | - | - | - | - | - | - |
| Maintenance | 14,232 | 31,779 | - | - | - | - |
| Bank charges | - | - | - | - | - | - |
| Sponsorships | - | - | - | - | 10,000 | 13,200 |
| Bab debts | - | - | - | - | - | - |
| Depreciation | 30,093 | 31,373 | 2,706 | 3,126 | - | - |
| Total Functional Expenses | <u>\$119,491</u> | <u>\$168,823</u> | <u>\$ 77,472</u> | <u>\$106,873</u> | <u>\$10,000</u> | <u>\$ 30,403</u> |

The accompanying notes are an integral part of these statements.

| | Total Program Services | | Support Services Administrative | | Total Expenses | |
|--|---------------------------|-------------------|------------------------------------|-------------------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | \$ 60,315 | \$ 71,867 | \$ 111,656 | \$ 79,217 | \$ 171,971 | \$ 151,084 |
| | 5,563 | 6,171 | 10,297 | 6,802 | 15,860 | 12,973 |
| | - | - | 1,047 | 637 | 1,047 | 637 |
| | - | 25 | 2,958 | 2,233 | 2,958 | 2,258 |
| | - | 1,000 | 2,073 | 2,299 | 2,073 | 3,299 |
| | - | - | 6,665 | 7,092 | 6,665 | 7,092 |
| | - | - | - | 3,109 | - | 3,109 |
| | 8,853 | 6,847 | 8,429 | 6,079 | 17,282 | 12,926 |
| | - | - | 1,211 | 2,072 | 1,211 | 2,072 |
| | - | 837 | 88 | 424 | 88 | 1,261 |
| | - | - | 7,215 | 6,346 | 7,215 | 6,346 |
| | - | - | 21,073 | 23,848 | 21,073 | 23,848 |
| | 30 | - | 4,578 | 4,007 | 4,608 | 4,007 |
| | - | - | 73 | 1,962 | 73 | 1,962 |
| | - | - | 1,922 | 3,195 | 1,922 | 3,195 |
| | 30,250 | 30,150 | - | - | 30,250 | 30,150 |
| | 44,041 | 63,951 | - | 60 | 44,041 | 64,011 |
| | 405 | 20,786 | - | - | 405 | 20,786 |
| | 475 | 24,987 | 24,133 | 6,914 | 24,608 | 31,901 |
| | - | - | - | 900 | - | 900 |
| | 14,232 | 31,779 | 644 | 1,721 | 14,876 | 33,500 |
| | - | - | 1,299 | 420 | 1,299 | 420 |
| | 10,000 | 13,200 | 2,900 | - | 12,900 | 13,200 |
| | - | - | - | 50,537 | - | 50,537 |
| | <u>32,799</u> | <u>34,499</u> | <u>2,008</u> | <u>2,780</u> | <u>34,807</u> | <u>37,279</u> |
| | <u>\$ 206,963</u> | <u>\$ 306,099</u> | <u>\$ 210,269</u> | <u>\$ 212,654</u> | <u>\$ 417,232</u> | <u>\$ 518,753</u> |

Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)
STATEMENTS OF CASH FLOWS
Year ended December 31,

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in unrestricted net assets | \$ 69,506 | (\$ 64,581) |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 34,807 | 37,279 |
| Loss (gain) on sale of assets | 1,147 | (171) |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (15,517) | 5,561 |
| Decrease(increase) in prepaid items | 2,087 | (4,672) |
| Increase in accounts payable and accrued items | <u>15,169</u> | <u>15,169</u> |
| Net cash provided by (used in) operating activities | <u>131,598</u> | (<u>11,415</u>) |
| Cash flows from investing activities: | | |
| Additions to equipment | - | (40,085) |
| Proceeds from sale of equipment | <u>1,100</u> | <u>5,220</u> |
| Net cash provided by (used in) investing activities | <u>1,100</u> | (<u>34,865</u>) |
| Cash flows from financing activities: | | |
| Net cash used in financing activities | <u>-</u> | <u>-</u> |
| Net increase (decrease) in cash (Note A) | 132,698 | (46,280) |
| Cash at beginning of year | <u>186,964</u> | <u>233,244</u> |
| Cash at end of year | <u>\$319,662</u> | <u>\$ 186,964</u> |
| <u>Cash paid during the year for interest</u> | <u>\$ -</u> | <u>\$ -</u> |

Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 Partnership (Formerly 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, 2019(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 Sassafas 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 Partnership
(Formerly Erie Downtown: An Improvement District Association)

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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>2008</u> | <u>2007</u> |
|------------------------|------------------|------------------|
| Furniture and Fixtures | \$ 23,238 | \$ 29,138 |
| Computers | 6,039 | 6,039 |
| Other Equipment | <u>144,936</u> | <u>144,936</u> |
| | <u>\$174,213</u> | <u>\$180,113</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 \$30,250 and \$30,150 in 2008 and 2007, 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, 2008 and 2007 the Association made no allowances for doubtful accounts.

Erie Downtown Partnership
(Formerly Erie Downtown: An Improvement District Association)

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 the Federal Deposit Insurance Corporation insured limits of \$250,000 in 2008 and \$100,000 in 2007. At December 31, 2008 and 2007 the Association's uninsured cash balances amounted to \$69,461 and \$107,324, respectively. Most of these accounts earned interest at the rate of 3.6% and 1.1% at December 31, 2008 and 2007 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 - COMMITMENTS

The Association is obligated under an operating lease to rent its office facilities through August 31, 2010, at minimum annual rental charges of \$18,360 in 2008, \$19,440 in 2009 and \$12,960 in 2010. The Association is responsible to pay maintenance, insurance and other occupancy expenses under the agreement.

The Association in October, 2008 agreed to participate with the City of Erie in a Department of Community and Economic Development grant requesting \$250,000 from the State of Pennsylvania. Under the terms of grant the Association will contribute \$25,000 in 2009 and 2010 as matching funds for certain design and construction documents require for improvements with the association's district.

NOTE C - PENSION PLAN

In October, 2008 the Association adopted a 403(b) pension plan for all eligible employees. Under the plan the association at its discretion matches 50% of the employees' contributions up to 6% of wages.

NOTE D - NAME CHANGE

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.