

CITY OF EASTON
EASTON, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2008

PALMER AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
40 SOUTH FOURTH STREET
EASTON, PA 18042

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AND AUDITOR'S REPORT
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DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of Council
City of Easton
Easton, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units disclosed in the notes to the financial statements, each major fund and the aggregate remaining fund information of the City of Easton, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Easton's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of Easton Redevelopment Authority or the Easton Housing Authority. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included of the City of Easton Redevelopment Authority and Easton Housing Authority, is based on the report of other auditors.

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

In our opinion, based on our audit and the report of the 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, aggregate discretely presented component units, the major funds and the aggregate remaining fund information of the City of Easton as of December 31, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof, and the budgetary comparison of the general and debt service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2009, on our consideration of the City of Easton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 11 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the City of Easton's basic financial statements. The accompanying supplemental information such as the Schedules of Capital Project, Special Revenue and Private-Purpose Funds is presented for additional analysis and are not required to be part of the basic financial statement. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Easton, Pennsylvania
August 31, 2009

Palmer and Company

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REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Member of Council
City of Easton
Easton, Pennsylvania

We have audited the 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 as of and for the year ended December 31, 2008, which collectively comprise the City of Easton's basic financial statements and have issued our report thereon dated August 31, 2009. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of City of Easton Redevelopment Authority and Easton Housing Authority, as described in our report on City of Easton's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Easton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Easton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Easton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Easton's ability to imitate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Easton's financial statements that is more than inconsequential will not be prevented or detected by the City of Easton's internal controls. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be a significant deficiencies in internal control over financial reporting. Reference number 2008-1 and 2008-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Easton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Easton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Easton in a separate letter dated August 31, 2009.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Easton, Pennsylvania
August 31, 2009

Palmer and Company

Management's Discussion and Analysis

As Management of the City of Easton, we offer readers of the City of Easton's financial statements this narrative overview and analysis of the financial activities of the City of Easton for the year ended December 31, 2008.

Financial Highlights

- The City of Easton's surplus from operating activities (General Fund) was \$26,756. While this number is a small number, it is a positive number. It reflects hard work to collect as much revenue as possible, and fiscal discipline and restraint to spend as little as possible. Our task as managers is not done as our current economic environment demands similar activities in 2009 to achieve similar results.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$1,859,501.
- Presented on the Government-wide statements, the assets of the City of Easton exceeded its liabilities at the close of the most recent fiscal year by \$19,424,561 (*net assets*).
- The government's total net assets decreased by \$896,813. The decrease in net assets is primarily associated with the recognition of post-employment benefits for health care and increases in provisions for compensated absences and medical expenses allocated to the public safety expenditure classification within Governmental-type Activities.
- As of the close of the current fiscal year, the City of Easton's fund financial statements reported combined ending fund balances of \$5,065,781, an increase of \$394,767.
- The City of Easton's total long-term debt of \$39,597,636 for Governmental Activities recognized increases of \$3,390,976 from the issuance of \$2,305,000 capital debt and recognized post-employment benefits of \$888,586 and compensated absences of \$197,390. Debt principal reductions from scheduled payments amounted to \$1,953,384.

Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the City of Easton's basic financial statements. The City of Easton's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Easton's finances, in a manner similar to a private-sector business.

The *statement of net assets* and *statement of activities* present information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Both of the government-wide financial statements distinguish functions of the City Of Easton that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The governmental activities of the City of Easton include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation.

The business-type activities of the City of Easton include the operation of the Wastewater Plant. Other business-type activities include service funds for health benefits, and property and casualty insurance.

The government-wide financial statement notes include not only the City of Easton itself (known as the *primary government*), but also a legally separate Easton Suburban Water Authority, Easton Redevelopment Authority, Easton Housing Authority, Easton Municipal Authority, and Easton Parking Authority. Although legally separate, each Authority functions for all practical purposes as a component of the City of Easton, and therefore has been included as an integral part of the primary government.

Fund financial statements. The City of Easton uses fund accounting to ensure compliance with finance-related requirements. The financial statements are organized into funds, each of which is considered to be a separate accounting entity. All of the funds of the City of Easton can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds These are the funds through which most of the government's functions are handled. The City of Easton maintains several individual governmental funds. The *General Fund* is the primary operating fund of the City and it accounts for resources not required to be accounted for in separate funds. The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest. The *General Capital Reserve and Bond Funds* are the major sources of funds available for future capital-type expenditures. All of these funds are classified as major funds.

In addition to these major funds, the City of Easton also has non-major funds. The *Special Revenue Funds* are used to account for proceeds to be used for restricted expenditures for specified purposes.

The City of Easton adopts an annual appropriated budget for its General Fund, Debt Service and Capital Funds at the beginning of each year. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

Proprietary funds These funds account for operations that are financed and operated in a similar manner to private business enterprises.

The *Enterprise Fund* accounts for any activities that are necessary to administer, operate and maintain of the City-managed wastewater treatment plant.

The *Internal Service Funds* are used to account for operations that provide services to other departments of the government on a cost reimbursement basis.

The City maintains a Health Benefits Fund and a Casualty / Liability Insurance Fund which receive fund transfers from the General and Sewage Funds for the cost of health and liability insurance.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

Fiduciary funds are *not* reflected in the government-wide financial statements.

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.

Government-wide Financial Analysis

Net assets may serve over time to be a useful indicator of a government's position. In the case of the City of Easton, assets exceeded liabilities at the close of the most recent fiscal year.

By far the largest portion of the City of Easton's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Easton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Easton'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.

CITY OF EASTON'S Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$12,564,064	\$11,180,553	\$463,142	\$344,094	\$13,027,206	\$11,524,647
Capital assets	49,550,358	49,181,005	-	-	49,550,358	49,181,005
Total assets	62,114,422	60,361,558	463,142	344,094	62,577,564	60,705,652
Long-term liabilities outstanding	37,832,370	36,211,660	109,478	95,733	37,941,848	36,307,393
Other liabilities	4,790,582	3,775,360	420,573	301,525	5,211,155	4,076,885
Total liabilities	42,622,952	39,987,020	530,051	397,258	43,153,003	40,384,278
Net assets:						
Invested in capital assets, net of related debt	13,448,494	13,463,338	-	-	13,448,494	13,463,338
Restricted	1,052,753	1,514,816	-	-	1,052,753	1,514,816
Unrestricted	4,990,223	5,396,384	(66,909)	(53,164)	4,923,314	5,343,220
Total net assets	\$19,491,470	\$20,374,538	\$(66,909)	\$(53,164)	\$19,424,561	\$20,321,374

At the end of the current year, the City of Easton is able to report positive net assets in the Governmental Activities. The negative balance in the Business-type Activities is a result of long-term estimated compensated absences, which will be funded in future periods.

CITY OF EASTON'S Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$12,964,644	\$13,015,226	\$3,562,728	\$3,970,761	\$16,527,372	\$16,985,987
Operating Grants and Contributions	4,194,472	4,118,704	24,235	23,090	4,218,707	4,141,794
Capital Grants and Contributions	1,431,405	4,420,923	-	-	1,431,405	4,420,923
General Revenues:						
Property taxes, Current Act 511 Taxes, Other taxes for General and Debt Service purposes	12,332,985	11,818,736	-	-	12,332,985	11,818,736
Unrestricted Investment Earnings	265,756	378,787	-	459	265,756	379,246
Miscellaneous	102,427	154,945	-	-	102,427	154,945
Total Revenues	31,291,689	33,907,321	3,586,963	3,994,310	34,878,652	37,901,631
Expenses:						
General government	5,851,550	5,083,647	-	-	5,851,550	5,083,647
Public Safety	13,279,720	11,677,456	-	-	13,279,720	11,677,456
Health and Welfare	94,098	137,232	-	-	94,098	137,232
Public Works – Sanitation	5,230,831	6,064,565	-	-	5,230,831	6,064,565
Public Works – Highways, Roads and Streets	1,910,500	1,439,981	-	-	1,910,500	1,439,981
Public Works – Other	328,066	553,680	-	-	328,066	553,680
Culture and Recreation	1,343,512	1,193,432	-	-	1,343,512	1,193,432
Urban Development	1,194,777	3,676,541	-	-	1,194,777	3,676,541
Debt Service	3,380,719	3,088,426	-	-	3,380,719	3,088,426
Water and Sewage Operations	-	-	3,431,222	3,746,978	3,431,222	3,746,978
Total Expenses	32,613,773	32,914,960	3,431,222	3,746,978	36,044,995	36,661,938
Changes- Net assets before transfers	(1,322,084)	992,361	155,741	247,332	(1,166,343)	1,239,693
Transfers	169,486	1,038,786	(169,486)	(1,038,786)	-	-
Special Items	269,530	1,989,719	-	48,375	269,530	2,038,094
Changes in net assets	(883,068)	4,020,866	(13,745)	(743,079)	(896,813)	3,277,787
Net Assets - Beginning of Year	20,374,538	5,944,041	(53,164)	11,121,454	20,321,374	17,065,495
Fixed Asset Allocation and Accounting Change	-	10,431,539	-	(10,431,539)	-	-
Prior Period Adjustment and Change in Asset Value	-	(21,908)	-	-	-	(21,908)
Net Assets – End of Year	\$19,491,470	\$20,374,538	\$(66,909)	\$(53,164)	\$19,424,561	\$20,321,374

General Fund Budgetary Highlights

2008 Revenues

- Property taxes collected increased during the current year. This increase is the product of increasing the millage rate from 21.95 mills to 24.95 mills, an increase of 13.67%
- Actual General Fund Revenues were less than Budget Revenues by \$1,173,144. Some areas of note include:
 - Real Estate Transfer Tax was under the original budgeted amount by \$\$295,269.
 - Earned Income Tax exceeded the original budget amount by \$118,034.
 - Rental of water systems revenue was \$413,616 less than the original budget amount. The variable component representing capacity fees was the reason for the shortfall. Beginning in 2010, the operating budget will not include one-time or non-recurring fees such as capacity fees. Included in the Rental Revenue for the year 2008 was \$320,000 representing the remaining portion of the lump-sum transition payment from the Easton Suburban Water Authority.

2009 Revenues

Based on the City's preliminary estimates, the City of Easton expects most major revenue line items to be collected at the original budgeted amount.

2008 Expenses

The City of Easton's lower than anticipated revenues resulted in a budget correction to reduce anticipated expenditures. Actual General Fund Expenditures were less than original Budget Expenditures by \$1,295,133.

2009 Expenses

Based on cost savings measures that have been implemented by the new administration in 2008, the City believes that 2009 expenditures will be below budget by a similar number as in 2008.

Financial Analysis of the Government's Fund Financial Statements

As noted earlier, the City of Easton presents the fund financial statements – governmental funds on a modified accrual basis of accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Easton's Governmental Funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is used to assess the City of Easton's financing requirements.

As of the end of the current fiscal year, the City of Easton's governmental funds reported combined ending fund balances of \$5,065,781, an increase of \$394,767 in comparison with the prior year. \$1,910,712 represents the unreserved, undesignated portion of fund balance. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

The General Fund is the chief Operating Fund of the City of Easton. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$1,859,501.

The fund balance of the City of Easton's General Fund increased by \$26,756 during the current year.

The Debt Service Fund has a total fund balance of \$51,211, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service Fund was \$25,172. The Debt Service Fund is an operating fund that is replenished yearly given a year's debt service needs.

Proprietary Funds. The City of Easton's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

Capital Asset and Debt Administration

Capital Assets. The City of Easton's investment in capital assets for its governmental activities as of December 31, 2008, amounts to \$26,426,898 (net of accumulated depreciation). This investment in capital assets includes land, easements, rights of way, buildings, improvements, vehicles, equipment and infrastructure.

CITY OF EASTON'S Capital Assets
(net of depreciation)

	Governmental Activities	
	2008	2007
Capital Assets Not Depreciated:		
Land, Easements and Rights of Way	4,714,104	\$4,714,104
Capital Assets Depreciated:		
Land & Improvements	93,290	130,231
Buildings & Improvements	7,493,897	7,716,794
Vehicles & Equipment	3,573,822	2,091,975
Infrastructure	983,037	701,718
Leased Water Plant	9,568,748	9,980,555
Total	\$26,426,898	\$25,335,377

Long-Term Debt. At the end of the current fiscal year, the City of Easton had bond, note, rental, and lease debt outstanding of \$36,824,032, backed by the full faith and credit of the government.

CITY OF EASTON'S Outstanding Debt

	Governmental Activities	
	2008	2007
Pension Debt Obligations:		
Series 2005	\$9,190,000	\$9,360,000
Series 2007	15,062,000	15,646,000
Capital Debt Obligations:		
Series 2004	4,211,000	4,855,000
Series 2004A	3,029,000	871,000
Series 1992B	1,764,982	2,139,886
Other:		
Master Lease Purchase Agreement	979,050	1,011,530
EMA Note 2005 – Wachovia Bank	2,588,000	2,589,000
Total	36,824,032	\$36,472,416

Economic Factors

Unfortunately, the slowdown in the economy in the Lehigh Valley and nationally has had a negative impact on the City's revenue base. In particular, the following situations need to be considered as the City of Easton looks forward to 2009 and beyond:

- Suburban growth (in particular new building) has slowed, which impacts the amount of tapping fees associated with our agreement with the Easton Suburban Water Authority. Because this revenue source is now used for capital projects and large purchases only, this will have an impact on the City's ability to fund large purchases.
- Large urban construction projects have not been completed as originally planned. As a result, the real estate tax base has not grown as it would have if these projects were completed.
- With a decline in the housing market, the City of Easton has experienced a number of assessment reductions through the appeals process. This trend has further eroded our real estate tax base.
- The number and size of real estate transfers within the City of Easton has declined. As a result, the City of Easton is projecting that, in 2009, we will realize at least \$250,000 less in Real Estate Transfer Tax than was realized in 2007.

Requests for Information

This financial report is designed to provide a general overview of the City of Easton's finances for all those with interest in the government's finances. Questions concerning any of the information provided in this report or requests for financial information should be addressed to the Office of the Director of Finance, City of Easton, 1 S. Third Street, Easton, Pennsylvania, 18042.

CITY OF EASTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 6,607,906	\$ 463,142	\$ 7,071,048	\$ 9,152,548
Taxes Receivable (net)	1,477,013	-	1,477,013	-
Other Receivables	3,311,261	-	3,311,261	1,423,831
Prepaid Items	14,449	-	14,449	91,544
Other Assets	431,267	-	431,267	1,384,660
Current Portion of Net Pension Asset and Capitalized Issuance Costs	722,168	-	722,168	-
Total Current Assets	12,564,064	463,142	13,027,206	12,052,583
Non-Current Portion of Net Pension Asset and Capitalized Issuance Costs	23,123,460	-	23,123,460	-
Capitalized Lease Purchase	-	-	-	920,000
Capital Assets (net of depreciation):				
Land	4,714,104	-	4,714,104	498,075
Site Improvements	93,290	-	93,290	-
Buildings and Improvements	7,493,897	-	7,493,897	8,934,284
Machinery and Equipment	3,573,822	-	3,573,822	1,818,012
Infrastructure	983,037	-	983,037	55,726,992
Water Treatment Plant	9,568,748	-	9,568,748	10,920,829
Total Assets	\$ 62,114,422	\$ 463,142	\$ 62,577,564	\$ 90,870,775
<u>Liabilities and Net Assets</u>				
<u>Liabilities:</u>				
Internal Balances	\$ (2,268)	\$ 2,268	\$ -	\$ -
Accounts Payable	2,181,697	94,435	2,276,132	155,695
Other Current Liabilities	259,119	234,729	493,848	170,483
Accrued Salaries Payable	193,357	30,735	224,092	33,324
Accrued Interest Payable	252,194	-	252,194	45,520
Unearned Revenue	141,217	-	141,217	9,411
Current Portion -				
Bonds Payable	1,765,266	-	1,765,266	836,107
Compensated Absences	-	58,406	58,406	-
Non-Current Portion -				
Contracts Payable - Completed Portion	-	-	-	1,345,628
Bonds Payable	35,058,766	-	35,058,766	21,899,603
Compensated Absences	1,885,018	109,478	1,994,496	-
Post-Employment Benefits	888,586	-	888,586	-
Total Liabilities	42,622,952	530,051	43,153,003	24,495,771
<u>Net Assets</u>				
Invested in Capital Assets and Net Pension Assets Restricted for Insurance Purposes	13,448,494	-	13,448,494	57,486,276
Unrestricted	1,052,753	-	1,052,753	-
	4,990,223	(66,909)	4,923,314	8,888,728
Total Net Assets	19,491,470	(66,909)	19,424,561	66,375,004
Total Liabilities and Net Assets	\$ 62,114,422	\$ 463,142	\$ 62,577,564	\$ 90,870,775

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<u>Governmental Activities</u>							
General Government	\$ (5,851,550)	\$ 1,770,500	\$ 828,916	\$ -	\$ (3,252,134)	\$ -	\$ -
Public Safety	(13,279,720)	2,076,698	1,450,890	56,124	(9,696,008)	-	(9,696,008)
Health and Welfare	(94,098)	46,165	-	-	(47,933)	-	(47,933)
Public Works - Sanitation	(5,230,831)	8,560,723	70,866	569,755	3,400,758	-	3,400,758
Public Works - Highways	(1,910,500)	182,346	565,039	-	(593,360)	-	(593,360)
Public Works - Other Public Works	(328,066)	177,798	384,142	365,563	233,874	-	233,874
Culture - Recreation	(1,343,512)	150,414	-	439,963	(827,535)	-	(827,535)
Community Development	(1,194,777)	-	894,619	-	139,805	-	139,805
Debt Service	(3,380,719)	-	-	-	(3,380,719)	-	(3,380,719)
Total Governmental Activities	\$ (32,613,773)	\$ 12,964,644	\$ 4,194,472	\$ 1,431,405	\$ (14,023,252)	\$ -	\$ (14,023,252)
<u>Business-Type Activities</u>							
Sewage Treatment Plant Operations	(3,431,222)	3,562,728	24,235	-	-	155,741	155,741
Total Primary Government	\$ (36,044,995)	\$ 16,527,372	\$ 4,218,707	\$ 1,431,405	\$ (14,023,252)	\$ 155,741	\$ (13,867,511)
<u>Component Units</u>							
Water and Parking	\$ (9,461,449)	\$ 10,122,972	\$ -	\$ -	\$ -	\$ -	\$ 661,523
<u>General Revenues:</u>							
Property and Other Taxes					\$ 12,332,985	\$ -	\$ 12,332,985
Miscellaneous					102,427	-	102,427
Unrestricted Interest Earnings					265,756	-	265,756
Internal Transfers					169,486	(169,486)	-
Refund of Prior Year Expenditures					269,530	-	269,530
Tapping Fees					-	-	606,970
Total General Revenues					13,140,184	(169,486)	12,970,698
Changes in Net Assets					(883,068)	(13,745)	(896,813)
Depreciation Developer Capital					-	-	(461,633)
Capital Value Provided by Developers					-	-	1,153,456
Net Assets - Beginning of Year					20,374,538	(53,164)	20,321,374
Net Assets - End of Year					\$ 19,491,470	\$ (66,909)	\$ 19,424,561

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2008

<u>Assets</u>	General Fund	Debt Service Fund	Capital and Bond Funds	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 1,880,093	\$ 51,211	\$ 3,106,692	\$ 917,871	\$ 5,955,867
Taxes Receivable (net)	1,477,013	-	-	-	1,477,013
Other Receivables	2,910,293	-	26,562	374,406	3,311,261
Other Assets	11,267	-	-	420,000	431,267
Due from Other Funds	194,791	-	196,494	21,000	412,285
Total Assets	\$ 6,473,457	\$ 51,211	\$ 3,329,748	\$ 1,733,277	\$ 11,587,693
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Due to Other Funds	\$ 1,000,000	-	-	\$ 389,402	\$ 1,389,402
Accounts Payable	281,707	-	1,273,535	33,335	1,588,577
Accrued Salaries and Benefits	193,357	-	-	-	193,357
Other Current Liabilities	188,652	-	-	70,467	259,119
Deferred Revenues	2,950,240	-	44,313	96,904	3,091,457
Total Liabilities	4,613,956	-	1,317,848	590,108	6,521,912
<u>Fund Balances:</u>					
Unreserved - Designated:					
Capital Projects	-	-	2,011,900	-	2,011,900
Special Revenue				1,143,169	1,143,169
Unreserved - Undesignated	1,859,501	51,211	-	-	1,910,712
Total Fund Balances	1,859,501	51,211	2,011,900	1,143,169	5,065,781
Total Liabilities and Fund Balances	\$ 6,473,457	\$ 51,211	\$ 3,329,748	\$ 1,733,277	\$ 11,587,693

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS ENTITY-WIDE
DECEMBER 31, 2008

Total Fund Balances - Governmental Funds \$ 5,065,781

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

Capital assets used in governmental activities are not financial resources and therefore are
not reported as assets in governmental funds. The cost of the assets is \$45,641,028 and the
accumulated depreciation is \$19,214,130. 26,426,898

Property taxes and utility charges receivable will be collected this year, but are not
available soon enough to pay for the current period's expenditures and, therefore, are
deferred in the governmental funds. 2,950,240

Internal Service Funds are used to charge the costs of certain activities, such as insurance.
The net assets have been included in governmental activities. 1,052,753

Capitalized Bond Issuance Costs to be amortized over future periods 418,293

Net pension asset to be amortized over period of pension debt in accordance with actuarial
calculations. 23,427,335

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

Bonds Payable	(36,824,032)	
Accrued Interest Expense	(252,194)	
Compensated Absences	(1,885,018)	
Post Employment Benefits	(888,586)	(39,849,830)

Total Net Assets - Governmental Activities \$ 19,491,470

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Debt Service Fund	Capital and Bond Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 10,002,433	\$ 2,150,940	\$ -	\$ -	\$ 12,153,373
Licenses and Permits	295,653	-	-	-	295,653
Fines and Forfeits	715,035	-	-	-	715,035
Interest and Rents	1,890,347	1,323	104,394	347,777	2,343,841
Intergovernmental	2,698,971	-	13,617	2,913,289	5,625,877
Charges for Service	9,668,461	-	-	98,030	9,766,491
Miscellaneous	102,427	-	-	-	102,427
Total Revenues	25,373,327	2,152,263	118,011	3,359,096	31,002,697
Expenditures:					
General Government	4,871,668	-	69,396	341,060	5,282,124
Public Safety	11,466,280	-	1,215,277	80,908	12,762,465
Health and Welfare	94,098	-	-	-	94,098
Public Works - Sanitation	5,147,307	-	74,403	7,890	5,229,600
Public Works - Roads	789,246	-	795,214	980,485	2,564,945
Public Works - Other	280,157	-	-	-	280,157
Culture - Recreation	735,093	-	160,603	472,674	1,368,370
Urban Development	-	-	-	1,194,777	1,194,777
Debt Service	-	4,555,410	-	-	4,555,410
Total Expenditures	23,383,849	4,555,410	2,314,893	3,077,794	33,331,946
Excess (Deficiency) of Revenues Over (Under) Expenditure	1,989,478	(2,403,147)	(2,196,882)	281,302	(2,329,249)
Other Financing Sources (Uses)					
Transfers In	-	2,397,975	-	-	2,397,975
Transfers Out	(2,228,489)	-	-	-	(2,228,489)
Modification Services	-	(20,000)	-	-	(20,000)
Note Proceeds	-	-	2,305,000	-	2,305,000
Refund of Prior Year Expenditures	265,767	-	1,053	2,710	269,530
Total Other Financing Sources (Uses)	(1,962,722)	2,377,975	2,306,053	2,710	2,724,016
Net Change in Fund Balances	26,756	(25,172)	109,171	284,012	394,767
Fund Balances - Beginning of Year	1,832,745	76,383	1,902,729	859,157	4,671,014
Fund Balances - End of Year	\$ 1,859,501	\$ 51,211	\$ 2,011,900	\$ 1,143,169	\$ 5,065,781

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 394,767
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses. This is the amount by which depreciation expense (\$1,210,305) is less than capital outlays (\$2,301,826) in the period.	1,091,521
Repayment of current bond principal net refunded debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,953,385
Because some property taxes and utility charges will not be collected for several months after the City's year end, they are not considered "available revenues" and are deferred in the governmental funds. Deferred tax revenues and utility charges increased by this amount this year.	288,992
In the statement of activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). Vacation and sick leave earned increased by this amount this year.	(197,390)
In the statement of activities, certain operating expenses (other post-employment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). The post-employment benefits recognized as unfunded for the current year are expensed in the Statement of Changes in Net Assets.	(888,586)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, therefore, requires the use of current financial resources. In the statement of activities, however, interest expenses is recognized as the interest accrues, regardless of when it is due. Accrued interest payable on bonds increased by this amount this year.	(3,944)
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The decrease in net assets has been allocated within governmental activities.	(462,063)
Bond issuance costs associated with debt obligations were capitalized and are amortized in the Statement of Changes in Net Assets.	(27,967)
Net pension assets resulting from the funding of the actuarial unfunded pension costs are amortized in the Statement of Changes in Net Assets.	(726,783)
The amount of note proceeds is reported in the governmental funds as a source of financing. On the other hand, Note Proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	<u>(2,305,000)</u>
Change in Net Assets of Governmental Activities.	<u>\$ (883,068)</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes	\$ 10,345,174	\$ 10,412,230	\$ 10,002,433	(409,797)
Licenses and Permits	341,500	341,500	295,653	(45,847)
Fines and Forfeits	771,850	754,350	715,035	(39,315)
Interest and Rents	2,330,000	2,330,000	1,890,347	(439,653)
Intergovernmental	2,613,096	2,687,491	2,698,971	11,480
Charges for Service	9,882,025	9,900,650	9,668,461	(232,189)
Miscellaneous	92,500	120,250	102,427	(17,823)
Total Revenues	<u>26,376,145</u>	<u>26,546,471</u>	<u>25,373,327</u>	<u>(1,173,144)</u>
<u>Expenditures:</u>				
General Government	4,929,168	5,519,079	4,871,668	647,411
Public Safety	12,171,895	11,988,465	11,466,280	522,185
Health and Welfare	105,182	103,160	94,098	9,062
Public Works - Sanitation	5,181,006	5,182,370	5,147,307	35,063
Public Works - Roads	844,157	830,633	789,246	41,387
Public Works - Other	280,231	293,885	280,157	13,728
Culture - Recreation	893,767	761,390	735,093	26,297
Total Expenditures	<u>24,405,406</u>	<u>24,678,982</u>	<u>23,383,849</u>	<u>1,295,133</u>
Excess of Revenues Over Expenditures	<u>1,970,739</u>	<u>1,867,489</u>	<u>1,989,478</u>	<u>121,989</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(2,228,489)	(2,228,489)	(2,228,489)	-
Refund of Prior Year Expenditures	232,750	336,000	265,767	(70,233)
Sale of Assets	25,000	25,000	-	(25,000)
Total Other Financing Sources (Uses)	<u>(1,970,739)</u>	<u>(1,867,489)</u>	<u>(1,962,722)</u>	<u>(95,233)</u>
Net Change in Fund Balance	-	-	26,756	26,756
Fund Balance - Beginning of Year	<u>1,832,745</u>	<u>1,832,745</u>	<u>1,832,745</u>	-
Fund Balance - End of Year	<u>\$ 1,832,745</u>	<u>\$ 1,832,745</u>	<u>\$ 1,859,501</u>	<u>\$ 26,756</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual (Budget Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes - Allocated from Levy	2,302,345	2,236,857	2,150,940	(85,917)
Interest Income	-	-	1,323	1,323
Total Revenues	<u>2,302,345</u>	<u>2,236,857</u>	<u>2,152,263</u>	<u>(84,594)</u>
<u>Expenditures:</u>				
Debt Service Principal	1,953,386	1,954,433	1,953,385	1,048
Debt Service Interest	2,673,908	2,607,373	2,598,900	8,473
Fiscal Agent Fees	4,500	4,500	3,125	1,375
Total Expenditures	<u>4,631,794</u>	<u>4,566,306</u>	<u>4,555,410</u>	<u>10,896</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,329,449)</u>	<u>(2,329,449)</u>	<u>(2,403,147)</u>	<u>(73,698)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In - Fund Allocation	2,329,449	2,329,449	2,397,975	68,526
Modification Services	-	-	(20,000)	(20,000)
Total Other Financing Sources	<u>2,329,449</u>	<u>2,329,449</u>	<u>2,377,975</u>	<u>48,526</u>
Net Change in Fund Balance	-	-	(25,172)	(25,172)
Fund Balance - Beginning of Year	<u>76,383</u>	<u>76,383</u>	<u>76,383</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 76,383</u>	<u>\$ 76,383</u>	<u>\$ 51,211</u>	<u>\$ (25,172)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>		
	<u>Sewage Treatment Plant Fund</u>	<u>Health Benefit Fund</u>	<u>Liability/ Unemployment Insurance Funds</u>	<u>Total Internal Service Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 463,142	\$ 462,212	\$ 189,827	\$ 652,039
Due from Other Funds	-	1,000,000	-	1,000,000
Prepaid Assets	-	-	14,449	14,449
 Total Assets	 <u>463,142</u>	 <u>1,462,212</u>	 <u>204,276</u>	 <u>1,666,488</u>
 <u>Liabilities</u>				
<u>Current:</u>				
Accounts Payable	94,435	573,283	19,837	593,120
Due to Other Funds	2,268	-	20,615	20,615
Accrued Salaries Payable	30,735	-	-	-
Compensated Absences	58,406	-	-	-
Intergovernmental Payable	234,729	-	-	-
 Total Current Liabilities	 <u>420,573</u>	 <u>573,283</u>	 <u>40,452</u>	 <u>613,735</u>
 <u>Non-Current:</u>				
Compensated Absences	109,478	-	-	-
 <u>Net Assets</u>				
Restricted for Health Benefits	-	888,929	-	888,929
Restricted for Liability Insurance	-	-	163,824	163,824
Unrestricted	(66,909)	-	-	-
 Total Net Assets	 <u>\$ (66,909)</u>	 <u>\$ 888,929</u>	 <u>\$ 163,824</u>	 <u>\$ 1,052,753</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	Enterprise Fund		Internal Service Funds		
	Sewage Treatment Plant Fund	Health Benefit Fund	Liability/ Unemployment Insurance Funds	Total Internal Service Funds	
<u>Operating Revenues</u>					
Sewer Treatment Charges	\$ 3,562,728	\$ -	\$ -	\$ -	-
Fund Allocations	-	2,579,169	963,935	3,543,104	3,543,104
Pension Aid Allocation	24,235	-	-	-	-
Participant Contributions	-	330,734	-	330,734	330,734
Total Operating Revenue	<u>3,586,963</u>	<u>2,909,903</u>	<u>963,935</u>	<u>3,873,838</u>	<u>3,873,838</u>
<u>Operating Expenses</u>					
Health Claim Payments	-	3,489,864	-	3,489,864	3,489,864
Liability/Unemployment Insurance	-	-	912,917	912,917	912,917
Sewage Treatment Plant Operations	3,431,222	-	-	-	-
Total Operating Expenses	<u>3,431,222</u>	<u>3,489,864</u>	<u>912,917</u>	<u>4,402,781</u>	<u>4,402,781</u>
Operating Income/(Loss)	155,741	(579,961)	51,018	(528,943)	(528,943)
<u>Non-Operating Revenues (Expenses)</u>					
Interest Income	-	-	1,902	1,902	1,902
Miscellaneous	-	56,285	8,693	64,978	64,978
Transfers Out	(169,486)	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(169,486)</u>	<u>56,285</u>	<u>10,595</u>	<u>66,880</u>	<u>66,880</u>
Change in Net Assets	(13,745)	(523,676)	61,613	(462,063)	(462,063)
Net Assets - Beginning of Year	(53,164)	1,412,605	102,211	1,514,816	1,514,816
Net Assets - End of Year	<u>\$ (66,909)</u>	<u>\$ 888,929</u>	<u>\$ 163,824</u>	<u>\$ 1,052,753</u>	<u>\$ 1,052,753</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Enterprise Fund Sewage Treatment Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received from Governmental Entities	\$ 4,144,071	\$ -
Participant Contributions	-	370,734
Cash Received from Funds Allocations	-	3,543,104
Payments for Sewage Treatment Operations	(3,533,158)	-
Payments for Insurance and Claims	-	(3,999,744)
Net Cash Provided by Operating Activities	610,913	(125,096)
Cash Flows from Non-Capital Financing Activities		
Other Revenues	-	64,978
Transfers to Other Funds	(169,486)	-
Temporary Advance to Other Funds	-	(1,000,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	(169,486)	(935,022)
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	-	1,092
Net Increase (Decrease) in Cash	441,427	(1,059,026)
Cash and Cash Equivalents - Beginning of the Year	21,715	1,711,065
Cash and Cash Equivalents - End of the Year	\$ 463,142	\$ 652,039
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 155,741	\$ (528,943)
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
Increase (Decrease) Due to Other Funds	(157,755)	(9,790)
(Increase) Decrease Accounts Receivable	322,379	-
(Increase) Decrease Prepaid Items	-	22,533
Increase (Decrease) Current Liabilities	276,803	390,294
Increase(Decrease) Compensated Absences (Non-Current)	13,745	-
Total Adjustments	455,172	(596,963)
Net Cash Provided by Operating Activities	\$ 610,913	\$ (125,906)

CITY OF EASTON
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,528,762	\$ 66,562	\$ 28,749	\$ 1,624,073
Accrued Interest Receivable	73,454	6,246	-	79,700
Investments at Fair Value:				
U.S. Treasury	\$ 177,095	\$ 125,894	\$ -	\$ 302,989
Corporate Bonds	6,075,072	303,080	-	6,378,152
Corporate Stocks	7,014,046	775,257	-	7,789,303
Mutual Funds	19,381,100	-	-	19,381,100
PRISA Prudential Contract	1,010,569	-	-	1,010,569
Total Investments	<u>33,657,882</u>	<u>1,204,231</u>	<u>-</u>	<u>34,862,113</u>
Total Assets	<u>35,260,098</u>	<u>1,277,039</u>	<u>28,749</u>	<u>36,565,886</u>
<u>Liabilities</u>				
Escrow Payable	-		28,749	28,749
Total Liabilities	<u>-</u>	<u>-</u>	<u>28,749</u>	<u>28,749</u>
<u>Net Assets</u>				
Held in Trust for Pension Benefits and and Trust Purposes	<u>\$ 35,260,098</u>	<u>\$ 1,277,039</u>	<u>\$ -</u>	<u>\$ 36,537,137</u>

CITY OF EASTON
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust</u>	<u>Total Fiduciary Funds</u>
<u>Additions</u>			
<u>Contributions:</u>			
Employer	\$ 765,673	\$ -	\$ 765,673
Plan Members	382,640	-	382,640
Other Sources	101	-	101
	<u>1,148,414</u>	<u>-</u>	<u>1,148,414</u>
Total Contributions			
<u>Investment Earnings:</u>			
Interest and Dividends	2,443,526	47,604	2,491,130
Net (Decrease) in Fair Value of Investments	(11,675,205)	(370,174)	(12,045,379)
Net Realized (Losses)	(1,472,415)	(165,740)	(1,638,155)
	<u>(10,704,094)</u>	<u>(488,310)</u>	<u>(11,192,404)</u>
Total Investment Earnings (Losses)			
Less: Investment Expense	(226,534)	(24,269)	(250,803)
	<u>(10,930,628)</u>	<u>(512,579)</u>	<u>(11,443,207)</u>
Net Investment Earnings (Losses)			
Total Net (Reductions)	<u>(9,782,214)</u>	<u>(512,579)</u>	<u>(10,294,793)</u>
<u>Deductions</u>			
Benefits	(3,994,250)	-	(3,994,250)
Refunds of Contributions	(56,242)	-	(56,242)
Administrative Expenses	(73,443)	-	(73,443)
Payments in Accordance with Trust Agreements	-	(91,557)	(91,557)
	<u>(4,123,935)</u>	<u>(91,557)</u>	<u>(4,215,492)</u>
Total Deductions			
Changes in Net Assets	(13,906,149)	(604,136)	(14,510,285)
Net Assets - Beginning of Year	<u>49,166,247</u>	<u>1,881,175</u>	<u>51,047,422</u>
Net Assets - End of Year	<u>\$ 35,260,098</u>	<u>\$ 1,277,039</u>	<u>\$ 36,537,137</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Easton is a primary governmental entity whose operational procedures are defined by Third Class City Code enacted by the Commonwealth of Pennsylvania. The City functions as council members and mayor chosen in a general election, and is considered to be fiscally independent.

The financial statements of City of Easton (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

The Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the City as a reporting entity, management has addressed all potential component units which may or may not fall within the City's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the City's reporting entity are financial accountability and the nature and significance of the relationship.

Following is a brief description of each component unit meeting the above criteria and as a result included within the financial reporting entity, a description of each component unit's relationship with the City of Easton, and a discussion of how component unit information has been incorporated into the financial statements:

BUSINESS-TYPE ACTIVITIES

Easton Suburban Water Authority - The Authority is responsible for providing water service to surrounding municipalities and contributing to the funding for the construction of the water treatment plant. All of the voting members of the Authority are appointed by the City of Easton. Authority assets leased under the January 1, 2007 Operating Agreement would be transferable to the City upon termination of the Agreement on January 1, 2032. The condensed financial information presented utilizes the "Government-Wide" Financial Statement presentation as it pertains to a single proprietary operation entity for the year ended December 31, 2008.

Easton Parking Authority - All voting members of the Board are appointed by the City of Easton. The City is in some manner obligated to provide financial support of the Authority. The condensed financial information presented utilizes the "Government-Wide" Financial Statement presentation as it pertains to a single proprietary operation entity for the year ended December 31, 2008.

Housing Authority of the City of Easton - The Authority was created by a resolution of the City of Easton. It was organized as a public housing Authority as defined by the Commonwealth of Pennsylvania. The Authority's Board of Commissioners is a five-member board appointed by the City of Easton. The Authority provides for significant housing opportunities within the boundary limits of the City of Easton under the supervision of HUD. The Authority's information would be disclosed if the December 31, 2008 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF NET ASSETS
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2008

	Easton Suburban Water Authority	Easton Parking Authority	Total
<u>ASSETS</u>			
Current Assets	\$ 7,592,669	\$ 4,459,914	\$ 12,052,583
Non-current Assets	76,541,011	2,277,181	78,818,192
Total Assets	<u>84,133,680</u>	<u>6,737,095</u>	<u>90,870,775</u>
<u>LIABILITIES</u>			
Current Liabilities	1,107,456	143,084	1,250,540
Non-current, Long Term Debt	18,281,231	4,964,000	23,245,231
Total Liabilities	<u>19,388,687</u>	<u>5,107,084</u>	<u>24,495,771</u>
<u>NET ASSETS</u>			
Invested in Capital Assets - Net of Related Debt	56,586,673	899,603	57,486,276
Unrestricted - Designated	-	693,167	693,167
Undesignated	8,158,320	37,241	8,195,561
Total Net Assets	<u>\$ 64,744,993</u>	<u>\$ 1,630,011</u>	<u>\$ 66,375,004</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2008

	Easton Suburban Water Authority	Easton Parking Authority	<u>Total</u>
<u>Expenses</u>			
Parking related administrative and direct operating	\$ -	\$ 270,576	\$ 270,576
Water system related administrative and direct operating	7,561,995	-	7,561,995
Depreciation	<u>1,558,618</u>	<u>70,260</u>	<u>1,628,878</u>
Total Expenses	<u>9,120,613</u>	<u>340,836</u>	<u>9,461,449</u>
Parking Garage Revenues	-	521,140	521,140
Water System Revenues	<u>9,601,832</u>	<u>-</u>	<u>9,601,832</u>
Net Program Revenues	<u>481,219</u>	<u>180,304</u>	<u>661,523</u>
Non-Operating Revenues (Expenses)	246,512	(248,288)	(1,776)
Change in Net Assets	727,731	(67,984)	659,747
Capital Value Provided by Developers	<u>1,153,456</u>	<u>-</u>	<u>1,153,456</u>
Beginning Net Assets	<u>\$ 62,863,806</u>	<u>\$ 1,697,995</u>	<u>\$ 64,561,801</u>
Ending Net Assets	<u>\$ 64,744,993</u>	<u>\$ 1,630,011</u>	<u>\$ 66,375,004</u>

GOVERNMENTAL-TYPE ACTIVITIES

Easton Municipal Authority - The Easton Municipal Authority filed articles of incorporation with the Commonwealth of Pennsylvania on July 19, 2005. A Lease Revenue Note with Wachovia Bank provided funds for various legal settlements and capital improvements for the City of Easton. The City in return has leased property to the Authority with a Guaranty Agreement for full payment of principal and interest of the 2005 Note.

Easton Redevelopment Authority - The Redevelopment Authority is responsible for administering various grants which the City of Easton is the Grantee. All voting members of the Authority board are appointed by the City of Easton and the City can modify or determine Authority programs and budgets. The Authority's information would be disclosed if the December 31, 2008 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

GOVERNMENTAL-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED STATEMENT OF NET ASSETS - CASH BASIS
GOVERNMENTAL -TYPE COMPONENT UNIT
AS OF DECEMBER 31, 2008

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	\$ <u>2,588,000</u>
<u>Liabilities</u>	
Note Payable	<u>2,588,000</u>
Net Assets	\$ <u>-</u>

CITY OF EASTON
CONDENSED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE
GOVERNMENTAL -TYPE COMPONENT UNIT
AS OF DECEMBER 31, 2008

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	\$ <u>93,686</u>
<u>Disbursements</u>	
Note Payments:	
Interest	92,686
Principal	<u>1,000</u>
Total Disbursements	<u>93,686</u>
Change in Fund Balance	-
Cash Basis Fund Balance - Beginning	<u>-</u>
Cash Basis Fund Balance - Ending	\$ <u>-</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, inter-governmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a single column on the governmental fund financial statements

1. GOVERNMENTAL FUNDS:

These are the funds through which most government functions are furnished. The funds of the financial reporting entity are described below:

- a. General Fund - Accounts for all furnished resources except those required to be accounted for in other funds. The General Fund is the primary operating fund of the City and always classified as a major fund.
- b. Debt Service Fund - Used to account for accumulation of resources for, and payment of, general long-term debt principal and interest and is classified as a major fund.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

1. GOVERNMENTAL FUNDS: (Contd.)

- c. Special Revenue Funds - Used to account for proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. Individual funds comprise this generic group and are presented in the non-major group.
- d. Capital Reserve and Bond Funds - Used to account for the financial resources to be used for acquisition, construction or improvement of major capital facilities and infrastructure.

2. PROPRIETARY FUND:

Accounts for operations that are financed and operated in a manner similar to private business enterprises. These activities are financed primarily by user charges and the measurement of financial activities focuses on net income.

Enterprise Funds - The City has leased all Water system facilities to the Easton Suburban Water Authority. As a result of the leasing arrangement, the Water Fund's net asset value has been transferred to the General Fund.

Also classified as an Enterprise Fund is the Sewage Treatment Plant Management Fund whereby the City of Easton operates the treatment plant and charges the operational costs to the Easton Area Joint Sewer Authority.

Internal Service Funds - Internal Service Funds are used to account for operations that provide services to other departments of the government on a cost reimbursement basis. The City maintains a Health Benefits Fund, Liability Insurance Fund and Unemployment Insurance Fund which receives fund transfer from the General and Sewage Management Funds for the costs of health, liability and unemployment insurances.

3. FIDUCIARY FUNDS: (Not included in government-wide statements)

Accounts for assets held by a governmental unit in a trustee capacity or as an agent for other funds:

- a. Private Purpose Trusts - Account for the revenues and the expenditures of the Kleppinger Estate Account and the Hugh Moore Park Charitable Trust.
- b. Employee Pension Fund - Used to account for assets held by the City in a trustee capacity for the future payment of retirement payments to employees.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes and “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the Fund Financial Statements, Governmental Funds and Agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

All Proprietary Funds utilize the accrual basis of accounting except the Internal Service Funds, which utilize the modified accrual basis. The Internal Service Funds pertaining to insurance costs related to governmental-type funds have been included in the net assets of Total Governmental-Type Funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset

These 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 the Proprietary Fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Fund are water service and sewage treatment charges. operating expenses for the City's Proprietary Fund include water production and sewage treatment costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the entity wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled under Act 72 of the Pennsylvania General Assembly of 1971. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained throughout the City's records.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition or available if required for current operation or debt service.

Investments

Investments are reported at fair value, except for repurchase agreements and nonnegotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price. The fair value of the City's position in pooled investments is the same as the value of the pooled shares.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes and Other Receivables

Taxes Receivable -

Real Estate Taxes	\$ 769,050
Per Capita Taxes	460,213
Earned Income and Real Estate Transfer Taxes	<u>247,750</u>
Total	<u>\$ 1,477,013</u>

Other Receivables -

Governmental Activities -

Utility Billings for Sewage, Water, and Refuse	\$ 2,910,293
Capital Project and various ongoing receivables within Special Revenue and Capital Funds	<u>400,968</u>

Total	<u>\$ 3,311,261</u>
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Property Taxes

Based upon assessed valuations by Northampton County, the City's real estate valuation for taxation purposes was \$350,038,700, the City's Department of Finance bills and collects the City's property taxes. The schedule for property taxes levied for year ended December 31, 2008 is as follows:

The municipal tax rate for all purposes in 2008 was 24.950 Mills.

General Purposes	18.358 Mills
Debt Purposes	<u>6.592 Mills</u>
Total	<u>24.950 Mills</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Prior to April 1	2% discount period
April 1 to May 30	Base payment period
After May 30	Penalty period

Real Estate Reconciliation for the year ended December 31, 2008

Taxes Levied based upon adjusted assessment	\$ 8,699,437
Add: Penalties	102,615
Less: Discounts	(99,469)
Cash Collections	<u>(8,175,819)</u>
Uncollected Balance as of December 31, 2008	<u>\$ 526,764</u>

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded and prepaid items in both government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market. The costs for inventories of governmental activities are recorded as expenditures at the time individual inventory items are purchased.

Capital Assets

Capital Assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide and proprietary fund financial statements. Capital assets are defined by the "Property Accounting Ledger Report" provided by the City's independent appraisal firm as assets which an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical costs at time of purchase or construction. Major outlays for capital asset and improvement projects are capitalized as constructed, inclusive of ancillary costs. Donated capital assets are recorded at estimated fair 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 the assets' lives are not capitalized.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Capital Assets (Contd.)

Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Major Building Structures	50 years
Pavilions	25 years
Traffic Signals	10 years
Site Improvements/Paving/Lighting	20 years
Swimming Pools	50 years
Road & Utility Equipment	10 - 15 years
Telephone System	10 years
Computers	5 years
Copiers/Printers	5 years
Vehicles - Trucks, Sedans, SUV	8 years

Compensated Absences

The City's policies regarding vacation and sick time permit certain employees to accumulate earned but unused vacation and sick leave. The liability calculated by the City for these compensated absences which is recorded as a non-current liability in the government-wide financial statements amounts to \$1,994,496. The current portion reported by the Sewage Treatment Fund is \$58,406. In the Fund Financial Statements, Governmental Funds would report only the compensated absence liability payable from expendable available financial resources.

Long-Term Obligations

In the Government-wide Financial Statements and Proprietary Fund Financial Statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

In the Fund Financial Statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refunds paid from proceeds which are reported as other financing uses.

Designated and Restricted Fund Balances

In the Fund Financial Statements; Governmental Funds report "Designated Fund Balances" which will provide the funds for expenditures for specific purposes determined by Council ordinance. Government-Wide Financial Statements report "Restricted Net Assets" for future health, property, and unemployment insurance.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 13, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimates useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund and Debt Service Funds on the modified cash basis of accounting. Additionally, the City adopts project-length financial plans and budgets for all Capital Projects Funds. The City Council may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Third Class City Code. The original budget of the General Fund has been modified to reflect amendments through the year, and the classification of Fund Transfers to the Debt Service Fund from the General Fund for pension debt obligations originally classified with various expenditure classifications of the General Fund. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Governmental and Business-Type Funds:

Cash Deposits with Financial Institutions

Cash deposits are with depositories designated by the City and permitted by section 1804.1 of the Pennsylvania Third Class City Code, as amended. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and pooled treasury money market funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk other than the provisions of City Code. At December 31, 2008, the bank balance of the City's deposits with financial institutions was \$6,992,972 compared to the carrying amount of \$6,830,371. The difference is primarily caused by items in-transit and outstanding checks. \$6,742,972 of the City's deposits were exposed to custodial risk which includes uninsured bank balances that are collateralized with securities held by the pledging financial institution or its trust department or agent, but no in the City's name, but are required to be collateralized in accordance with ACT 72 of the Pennsylvania State legislature of 1971 which requires the institution of pool collateral for all government deposits and have collateral held by an approved custodian in the institution's name.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Contd.)

Governmental and Business-Type Funds: (Contd.)

Reconciliation to Financial Statements

Carrying Amount, Including Petty Cash	\$ 6,830,371
Deposits in Investment Pools Considered to be Cash equivalents	<u>240,677</u>
Total Cash and Equivalents per Financial Statements	<u>\$ 7,071,048</u>

Investments

Permitted investments for Third Class Cities are defined in Section 1804.1 of the Pennsylvania City Code as:

- (1) United States Treasury bills.
- (2) Short-term obligations of the Federal government or its agencies or instrumentalities.
- (3) Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation, or their successor agencies.
- (4) Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- (5) Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 et seq.), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. § 77a et seq.), if the only investments of that company are in the authorized investments for city funds listed in paragraphs (1) through (4).
- (6) Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation, or their successor agencies.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Governmental and Business-Type Funds: (Contd.)

Governmental and Business-Type Investments were comprised of the following:

	<u>Carrying Value</u>
Federated Treasury and Pennsylvania Local Government Investment Trust Funds	\$ <u>240,677</u>

Reconciliation to Financial Statements:

Total Investments Above	\$ 240,677
Less: Deposits Considered to be Cash Equivalents, Investment Pools	<u>(240,677)</u>
Total Investments per Financial Statements	<u>\$ -</u>

Interest Rate Risk

The City does not have a formal investment policy regarding mitigation of interest rate risk that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no investment policy that would limit its investment choices to certain credit ratings other than the provisions of Pennsylvania City Code. The City's investments were rated as: PA Local Government Investment Trust and GIS Treasury Funds - Standard and Poor's AAA.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City would not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City has no investments subject to custodial credit risk.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Fiduciary-Type Funds:

Private-Purpose Trust and Agency Funds -

Cash and Cash Equivalents

Bank and Other Investment Group Prime Obligation Funds	\$ <u>95,311</u>
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Total Cash and Cash Equivalents	\$ <u>95,311</u>
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Investments (Fair Value)

U.S. Government Obligations	\$ 125,894
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Corporate Bonds	303,080
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Corporate Stocks	<u>775,257</u>
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Total Investments	<u>\$ 1,204,231</u>
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Aggregated Pension Funds -

Cash Deposits with Financial Institutions

Cash deposits are with depositories designated by the Pension Board and permitted by 20 Pa. C.S. Chapter 73.

Investments

Permitted investments for municipal pension plans are defined in 20 Pa. C.S. Chapter 73:

1. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities,
2. Bonds, notes or other obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development which contain an unconditional promise to pay by the International Bank for Reconstruction and Development, or an unconditional guarantee by the International Bank for Reconstruction and Development of the payment of the interest thereon regularly, and the principal thereof on or before a specified date, in lawful currency of the United States,
3. Deposits in savings accounts or time deposits of share accounts of institutions insured by F.D.I.C.,
4. Real estate in Pennsylvania, with court approval,
5. Mutual funds,
6. Corporate bonds, and
7. Stocks.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Contd.)

Aggregated Pension Funds (Contd.)

Cash Deposits with Financial Institutions (Contd.)

Investments (Contd.)

A detailed listing of investments is provided in a separately issued Aggregated Pension Report available at the City's business office. Cash, cash equivalents, and investments by major category consist of the following as of December 31, 2008:

Cash and Cash Equivalents:

State and Municipal Interest Checking Account	\$ 454,516
Evergreen Money Market Fund	<u>1,074,246</u>
Total cash and cash equivalents	<u>\$ 1,528,762</u>

Investments:

Equity securities	\$ 7,014,046
Fixed income securities:	
U.S. Treasury Notes	177,095
Corporate Bonds	6,075,072
Commingled Funds:	
U.S. Equity Funds	12,313,633
U.S. Bond Funds	7,067,467
PRISA Prudential Contract	<u>1,010,569</u>
Total investments	<u>\$ 33,657,882</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Contd.)

Aggregated Pension Funds (Contd.)

Cash Deposits with Financial Institutions (Contd.)

Investment Risk Factors

There are many factors that affect the value of investments. Equity securities are affected by economic conditions, company earnings performance, and market liquidity. Fixed income securities are affected by such factors as credit risk and changes in interest rates. Both types of securities may also be affected by custodial credit risk, concentration of credit risk, and foreign currency risk.

Credit Risk

Credit risk is the risk that a bond issuer will fail to pay interest or principal in a timely manner or that adverse perceptions of the issuer's ability to make such payments will cause the value of the bond to decline. Some factors that may cause this are litigation, bankruptcy, financial weakness and adverse political conditions. Credit quality is evaluated and rated by independent bond rating agencies, such as Moody's or Standard and Poor's. The lower the rating, the greater the chance of failure to make bond payments. However, a lower rating is usually offset by a higher yield to compensate for the additional risk.

Some fixed income securities, including obligations of the U.S. government and those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The Plan's holdings of corporate bonds are rated between A and AAA by Standards and Poor's; Mutual Funds are not rated. The Plan has no policy in regard to credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure, the Plan's deposits may not be returned to it. The Plan does not have a policy for custodial credit risk. At December 31, 2008, the bank balance of the Plan's deposits with financial institutions including cash equivalents was \$1,600,291 compared to the carrying amount of \$1,528,762. The difference is primarily caused by outstanding checks. The Plan's deposits of \$1,350,291 were exposed to custodial risk which includes uninsured bank balances that are collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the Plan's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss associated with lack of diversification. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, or other pooled investments are excluded from this review. The Plan does not hold any equities or non-U.S. government fixed income securities that comprise more the five percent of total investments. The Plan has no policy regarding concentration of credit risk.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Contd.)

Aggregated Pension Funds (Contd.)

Cash Deposits with Financial Institutions (Contd.)

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline due to rising interest rates. Fixed-income securities with a longer term to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The Plan does not have a formal policy in regard to interest rate risk. The Plan has contracted with Wachovia Bank to mitigate this risk while providing enough cash to fulfill pension cash requirements.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect deposits on an investment's fair value. The Plan has foreign currency risk through its investment in a bond issued by DuPont E I DeNemours. The Plan has no specific policy regarding exposure to foreign currency risk.

NOTE 4 DEFERRED REVENUES

Governmental Funds report deferred revenue associated with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition with resources that have been received, but not earned. At the end of the current fiscal year, deferred revenue as reported in the Governmental Funds is comprised of the following:

Real Estate and Per Capita Taxes	\$ 1,132,302
Utility Billings	1,817,938
Repair and Maintenance Funds	44,313
Prepaid Rental Income	1,631
State Grant Program Funds	<u>95,273</u>
Total Deferred Revenues	<u>\$ 3,091,457</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 5 CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated:			
Land, Easements, Rights of Way	\$ 4,714,104	\$ -	\$ 4,714,104
Capital Assets Depreciated:			
Land Improvements	960,348	-	960,348
Buildings & Improvements	11,099,296	58,564	11,157,860
Vehicles & Equipment	4,820,045	1,924,563	6,744,608
Infrastructure	1,155,057	318,699	1,473,756
Leased Water Plant Assets	20,590,352	-	20,590,352
Total Capital Assets	<u>38,625,098</u>	<u>2,301,826</u>	<u>40,926,924</u>
Less: Accumulated Depreciation:			
Land Improvements	(830,117)	(36,941)	(867,058)
Buildings & Improvements	(3,382,502)	(281,461)	(3,663,963)
Vehicles & Equipment	(2,728,070)	(442,716)	(3,170,786)
Infrastructure	(453,339)	(37,380)	(490,719)
Leased Water Plant Assets	(10,609,797)	(411,807)	(11,021,604)
Total Accumulated Depreciation	<u>(18,003,825)</u>	<u>(1,210,305)</u>	<u>(19,214,130)</u>
Total Net Capital Assets	<u>\$ 25,335,377</u>	<u>\$ 1,091,521</u>	<u>\$ 26,426,898</u>

Depreciation expense was allocated to expenditure classifications of the City of Easton as follows:

Governmental Activities:	
General	\$ 595,462
Public Safety	279,474
Sanitation Activities	47,910
Highways & Roads	103,805
Other Public Services	47,909
Recreation	<u>135,745</u>
Total Depreciation Expense -	
Governmental Activities	<u>\$ 1,210,305</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable for:</u>	<u>Payable from:</u>		
Health Benefit Fund	General Fund	\$	1,000,000
General Fund	State Programs Fund		145,206
General Fund	Federal Programs Fund		19,902
General Fund	Liability Insurance Fund		20,615
General Fund	Sewage Treatment Fund		2,268
General Fund	Miscellaneous Grant Fund		6,800
State Programs Fund	Federal Programs Fund		21,000
2004A Bond Fund	State Programs Fund		159,494
General Capital Fund	State Programs Fund		37,000
			<u>1,412,285</u>

Activity between Funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from Other Funds (i.e., the current portion of interfund loans) or "advances to/from Other Funds (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the Governmental Activities and Business-type Activities are reported in the Government-wide Financial Statements as "internal balances".

Interfund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>		
General Fund	Debt Service Fund	\$	2,228,489
Sewage Treatment Fund	Debt Service Fund		169,486
			<u>\$ 2,397,975</u>

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2008:

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2008</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
Pension Debt	\$ 25,006,000	\$ -	\$ 754,000	\$ 24,252,000	\$ 720,000
Capital Debt	7,865,886	2,305,000	1,165,904	9,004,982	1,008,168
Lease Rental Debt	2,589,000	-	1,000	2,588,000	1,000
Capitalized Lease Debt	1,011,530	-	32,480	979,050	36,098
Post-Employment Benefits	-	888,586	-	888,586	Not Est.
Compensated Absences	<u>1,687,628</u>	<u>197,390</u>	<u>(net) -</u>	<u>1,885,018</u>	<u>Not Est.</u>
Total Debt	<u>\$ 38,160,044</u>	<u>\$ 3,390,976</u>	<u>\$ 1,953,384</u>	<u>\$ 39,597,636</u>	<u>\$ 1,765,266</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2008</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
<u>Business-Type Activities:</u>					
Compensated Absences	\$ 131,329	\$ 36,555	\$ -	\$ 167,884	\$ 58,406
 <u>Pension Debt Obligations:</u>					
Federally Taxable General Obligation Bonds, Series of 2007, maturing through December 1, 2025 bearing interest ranging from 6.73% to 7.17%, interest payable semi-annually June 1 and December 1.					\$ 15,062,000
Federally Taxable General Obligation Bonds, Series of 2005, maturing through December 1, 2033 bearing interest ranging from 5.28% to 5.79%, interest payable semi-annually June 1 and December 1.					9,190,000
 <u>Capital Debt Obligations</u>					
General Obligation Bonds, Series of 1992B, maturing through December 1, 2012, bearing interest ranging from 6.15% to 6.40%, interest payable semi-annually June 1 and December 1.					1,764,982
General Obligation Notes, Series of 2004, maturing through November 1, 2018, bearing interest ranging from 2.097% to 3.500%, interest payable semi-annually May 1 and November 1.					4,211,000
General Obligation Note, Series A of 2004, maturing through December 1, 2024, maximum principal amount of \$3,455,000, fixed interest rate of 3.80% to December 1, 2014, thereafter adjusted to equal 66% of Keystone Nazareth Bank Trust's Prime Rate, never to exceed 6.00% per annum, interest payable semi-annually June 1 and December 1.					3,029,000
 <u>Other Financing Obligations</u>					
Lease Rental Debt, Easton Municipal Authority, Bank Note 2005, Wachovia Bank, maturing through December 1, 2014 bearing interest of 3.58%.					2,588,000
Master Lease Purchase Agreement, 2007, Public Finance Com, Inc. assigned to County Farmers National Bank, 180 monthly payments, final maturity April 15, 2022.					979,050
Total					<u>\$ 36,824,032</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

Annual requirements for combined principal and interest costs for Pension, Capital and Lease Rental Debt are as follows:

<u>Fiscal Year</u>	<u>Combined Principal</u>	<u>Combined Interest</u>	<u>Combined Debt Service</u>
2009	\$ 1,675,167.75	\$ 2,802,307.82	\$ 4,477,475.57
2010	1,780,482.00	2,840,270.90	4,620,752.90
2011	1,687,368.70	2,797,037.40	4,484,406.10
2012	1,702,963.80	2,752,799.10	4,455,762.90
2013	2,692,000.00	1,665,064.80	4,357,064.80
2014	2,550,000.00	1,543,959.00	4,093,959.00
2015	1,724,000.00	1,438,489.97	3,162,489.97
2016	1,803,000.00	1,346,868.60	3,149,868.60
2017	1,896,000.00	1,248,859.49	3,144,859.49
2018	1,998,000.00	1,145,386.20	3,143,386.20
2019	1,433,000.00	1,035,739.18	2,468,739.18
2020	1,526,000.00	943,098.92	2,469,098.92
2021	1,626,000.00	844,260.47	2,470,260.47
2022	1,733,000.00	738,823.48	2,471,823.48
2023	1,849,000.00	626,313.60	2,475,313.60
2024	1,965,000.00	506,085.52	2,471,085.52
2025	1,824,000.00	378,166.80	2,202,166.80
2026	445,000.00	253,602.00	698,602.00
2027	470,000.00	227,836.50	697,836.50
2028	500,000.00	200,623.50	700,623.50
2029	530,000.00	171,673.50	701,673.50
2030	560,000.00	140,986.50	700,986.50
2031	590,000.00	108,562.50	698,562.50
2032	625,000.00	74,401.50	699,401.50
2033	660,000.00	38,214.00	698,214.00
Totals	<u>\$ 35,844,982.25</u>	<u>\$ 25,869,431.25</u>	<u>\$ 61,714,413.50</u>

Debt service payments of principal and interest are recorded within the Debt Service Fund.

The Sources of Revenues to fund the debt service payments are as follows:

Allocation of real estate taxes \$ 2,150,940

General Fund Transfers - in addition to the above allocation of real estate taxes as provided in the tax millage ordinance; the funding for debt service costs is also in the form of transfers which are apportioned to cost categories within the General Fund as follows:

General	\$ 297,893
Public Safety	1,640,650
Health and Welfare	9,454
Sanitation	113,202
Highways	84,824
Other Public Works	16,054
Recreation	66,412
Sewage Treatment Fund Transfer	169,486
Total Transfers	<u>\$ 2,397,975</u>
Interest Income	<u>\$ 1,323</u>
Total Source of Revenues	<u>\$ 4,550,238</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including stop-loss insurance. For insured programs, management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

City of Easton Workers' Compensation
Self Insurance Trust Fund

The City of Easton has been granted an exemption from insuring its workers' compensation and occupational disease liability under the provisions of the Pennsylvania Workers' Compensation Act by the Department of Labor and Industry, Bureau of Workers' Compensation, Self-Insurance Fund created May 1, 1993, must be in existence to provide a source of funds sufficient to pay the benefits incurred under the act. The funding level as established by the Administrator, Consolidated Risk Service, Inc., and the City of Easton was \$382,011. The City did contribute this amount to the Trust Fund during the 2008 year. As of December 31, 2008, assets of the Trust Fund amounted to \$477,866. As presented in a Separate Financial Report available at the City's business office, the Trust assets are further designated in the amount of \$374,366 for medical, lost wage and contingencies.

NOTE 9 DEFERRED COMPENSATION PLAN

The City of Easton offers its' employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The Plan permits participants to defer a portion of their salary until future years. Nationwide Retirement Solution, Inc., is the manager of the plan and has reported the value of the Deferred Compensation Plan to be \$939,280 as of December 31, 2008.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 10 NET PENSION ASSET

The Governmental Accounting Standards Board provided interpretations for the presentation of Pension Obligation Bonds issued to reduce unfunded actuarial accrued liabilities of Defined Pension Plans to zero. The City of Easton has recognized the Bond Issue and the contribution to the Plan in the General Fund, in that the employer and pension plan are separate legal entities and the financial dealings between them should be considered external transactions. The City has shown a decrease in net assets equal to the original total debt obligation of the 1996 Pension Bonds \$16,147,715 and the 2005 Pension Bonds of \$9,111,223 and an increase in net assets of an equal amount representing the payment to the Pension Plan to fund the actuarial required contribution net of amortization since 1996.

The Pension Obligation Bond transactions have replaced the unfunded actuarial accrued liability, an "off-financial statement obligation", with Bonded Debt, an ordinary General long-term Liability on the face of the Government-wide Financial Statements. As a result of the requirement to derive the measurement of expense from the ARC rather from the total amount actually contributed - which in this case was much larger - a Net Pension Asset will be reported in addition to the General long-term Liability associated with the Debt.

Statement 27 requirements resulted amortizing the Net Pension Asset over the plan's amortization period. Amortization expense for the year 2008 was \$726,782, and the Net Pension Asset values were \$14,491,124 for the 1996 Bond Issue (refunded by the 2007 Pension Bond Issue) and \$8,936,211 for the 2005 Bond Issue.

NOTE 11 PENSION PLANS

State Administered Plans
Officers and Employees

A. Plan Description

General. The Easton City pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 107-93 adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Plan Membership. Membership of the plan consisted of the following at December 31, 2008:

Active plan members	117
Retirees and beneficiaries currently receiving benefits	42
Terminated plan members entitled to but not yet receiving benefits	<u>7</u>
Total	<u><u>166</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

State Administered Plans

Officers and Employees (Contd.)

Benefit Provisions. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

B. Summary of Significant Accounting Policies

Basis of Accounting. The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

C. Contributions

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation.

In accordance with the plan's governing Resolution, members are required to contribute 4.00% of compensation to the plan.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess on employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/97	5,344,094	5,752,233	408,139	92.90	3,673,747	11.11%
1/1/99	6,514,532	6,510,301	(4,231)	100.06	3,891,161	-0.11
1/1/01	7,291,569	7,355,904	64,335	99.13	4,123,946	1.56
1/1/03	8,212,390	8,090,645	(121,745)	101.50	4,124,702	-2.95
1/1/05	9,954,307	9,878,151	(76,156)	100.77	4,731,205	-1.61
1/1/07	11,527,336	11,492,295	(35,041)	100.30	4,512,626	-0.78

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

State Administered Plans
Officers and Employees (Contd.)

Schedule of Contributions from the Employer(s) and Other Contributing Entities

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Actuarial</u> <u>Valuation</u> <u>Basis for</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
1997	\$289,304	1995	100%
1998	305,472	1995	100%
1999	339,720	1997	100%
2000	331,411	1997	100%
2001	305,866	1999	100%
2002	306,221	1999	100%
2003	234,448	2001	100%
2004	257,694	2001	100%
2005	255,371	2003	100%
2006	265,623	2003	100%
2007	306,048	2005	100%
2008	311,022	2005	100%

Notes to Supplementary Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14.33 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	5.20%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND

Description of Aggregated Pension Fund

The Aggregate Pension Fund is comprised of the Non-Uniformed, Police, and Firemen's Retirement Funds. The Aggregate Pension Fund is funded by contributions from the Municipality, participating employees, Commonwealth of Pennsylvania, and earnings from the Funds' investments.

In addition to Act 205, the City of Easton Aggregated Pension Trust Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

ACT 147 - Special Ad Hoc Municipal Police and Firefighter Post-retirement Adjustment Act, Act of 1988, (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101, et seq.

ACT 399 - Optional Third Class City Charter Law, Act of July 15, 1957, (P.L. 901, No. 399), as amended, 53 P.S. § 41101, et seq.

The City of Easton Aggregated Pension Fund acts as a common investment and administrative agent for the City's police, firemen's and non-uniformed defined benefit pension plans. The police pension plan is governed by Article 147 of the city's codified ordinances. The firemen's pension plan is governed by Article 149 of the City's codified ordinances. The officers' and employees' pension plan is governed by Article 143 of the City's codified ordinances. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters, and non-uniformed employees.

The City of Easton issues a separate financial report that includes financial statements and required supplementary information for the City of Easton Aggregated Pension Fund. That report can be obtained from the City of Easton's finance department.

City of Easton Officers and Employees

Plan Description - The City of Easton Officers and Employee Pension Plan is a single employer-defined benefit plan controlled by the provisions of PA Act 205 and Plan ordinances.

In accordance with Act 205, the City of Easton has been authorized by the State Retirement Commission to participate as a level three distressed community. The participation at this level requires the City, among other things, to aggregate the assets of all the pension funds administered by the City into a single pension trust fund.

The Plan includes all officers and employees who were employed prior to December 31, 1978 excluding policemen and firemen. The types of benefits provided are by ordinance and include all normal retirement, disability, vested and death benefits.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND (Contd.)

City of Easton Officers and Employees (Contd.)

Funding Policy - The authority under which obligations to the plan by the plan member, employer and other contributing entities are established and may be amended by PA Act 205 and Plan ordinances. Contributions can be provided by State Aid and Local Government or Employee Contributions. Active plan members are required to contribute 3.0% of compensate not covered by social security. Members who are covered shall contribute 3.5% of compensation in which social security taxes are payable and 5% on the excess. The City required contribution rate is in accordance with funding policy, in dollars or as a percentage of the current years covered payroll per the Minimum Municipal Obligation under PA Act 205, for the plan year ending December 31, 2008 the contribution was \$60,647.

Annual Required Contribution and Net Pension Obligation - The City's annual pension cost and new pension obligation to the Officers and Employees Plan for the current year were as follows:

Net Pension Obligation (NPO) at the beginning of the period	<u>\$ (923,321)</u>
Annual pension cost:	
Annual required contribution (ARC)	60,647
Interest on the NPO	(73,866)
Adjustments to the ARC Amortization of NPO	<u>99,881</u>
Annual Pension Cost	86,662
Contributions Made	<u>(60,647)</u>
Increase in NPO	<u>26,015</u>
NPO at the end of the period	<u>\$ (897,306)</u>

The annual required contribution for the current year was determined as part of the January 1, 2007, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2008 calendar year. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increases 5.0% compounded annually. The assumptions did not include post-retirement benefits. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on every valuation date.

Actuarial valuation date	January 1, 2007
Actuarial value of Plan assets	<u>\$ 11,643,036</u>
Actuarial accrued liability	<u>\$ 11,683,507</u>
Total unfunded actuarial liability	<u>\$ 40,471</u>
Annual Covered Payroll	<u>\$ 420,982</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Officers and Employees (Contd.)

Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$51,894	100%	(\$113,848)
2007	58,255	100%	(923,321)
2008	60,647	100%	(897,306)

City of Easton Firemen

Plan Description - The City of Easton Firemen Pension Plan is a single employer-defined benefit plan controlled by the provisions of PA Act 205 and Plan ordinances.

In accordance with Act 205, the City of Easton has been authorized by the State Retirement Commission to participate as a level three distressed community. The participation at this level requires the City, among other things, to aggregate the assets of all the pension funds administered by the City into a single pension trust fund.

Eligibility

A Firefighter shall become a participant of the Plan on the later of the date on which he or she becomes a Firefighter or the date on which he or she signs and files with the city Secretary an agreement in a form prescribed by the City containing a statement that the Firefighter agrees to:

- a. join the Plan,
- b. be bound by all statutes, laws, ordinances, resolutions, rules and regulations pertaining to the Plan,
- c. authorize the city to deduct required employee contributions, and
- d. designate a beneficiary(ies) in the event of death.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Firemen (Contd.)

Funding Policy -

Every Firefighter shall pay into the Fund through payroll deductions on an after tax basis:

1. A monthly contribution equal to four and one-half percent (4 1/2%) of his Pensionable Compensation, provided that if any benefits are granted to a Firefighter who has not contributed to the Fund for an aggregate period of twenty years, such Firefighter shall pay into the Fund monthly by deduction from his benefit payments an amount equal to such maximum deductible percentage of his Compensation until such time as he has contributed for a period of twenty years (20), including any years in which he contributed to PMRS and any predecessor funds.
2. An additional monthly contribution equal to one percent (1%) of his Compensation as a contribution towards the survivor benefit set forth herein.
3. An additional one dollar (\$1.00) per month for every month during which the Firefighter participates in the Plan until the Firefighter reaches age 65 as payment for the service increment provided under the Plan.

The City required contribution rate is in accordance with funding policy, in dollars or as a percentage of the current years covered payroll per the Minimum Municipal Obligation under PA Act 205, for the plan year ending December 31, 2008 the contribution was \$290,276.

Annual Required Contribution and Net Pension Obligation - The City's annual pension cost and new pension obligation to the Officers and Employees Plan for the current year were as follows:

Net Pension Obligation (NPO) at the beginning of the period	<u>\$ (894,388)</u>
Annual pension cost:	
Annual required contribution (ARC)	290,276
Interest on the NPO	(71,551)
Adjustments to the ARC Amortization of NPO	<u>96,751</u>
Annual Pension Cost	315,476
Contributions Made	<u>(290,276)</u>
Increase in NPO	<u>25,200</u>
NPO at the end of the period	<u>\$ (869,188)</u>

Actuarial valuation date	January 1, 2007
Actuarial value of Plan assets	<u>\$ 17,060,714</u>
Actuarial accrued liability	<u>\$ 17,240,727</u>
Total unfunded actuarial liability	<u>\$ 180,013</u>
Annual Covered Payroll	<u>\$ 2,500,399</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Firemen (Contd.)

The annual required contribution for the current year was determined as part of the January 1, 2007, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2008 calendar year. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increases 5.0% compounded annually. The assumptions did not include post-retirement benefits. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on every valuation date.

<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$300,816	100%	(\$221,795)
2007	286,227	100%	(894,388)
2008	290,276	100%	(869,188)

City of Easton Police

General Description - The City of Easton Police Pension Plan is a single employer-defined benefit plan controlled by the provisions of PA Act 205 and Plan Ordinance.

In accordance with Act 205, the City of Easton has been authorized by the State Retirement Commission to participate as a level three distressed community. The participation at this level requires the City, among other things, to aggregate the assets of all the pension funds administered by the City into a single pension trust fund.

Eligibility

- A. All members participating in the Plan prior to 1/1/95 and who are an employee on 1/1/95 shall be a participant as of 1/1/95.
- B. Each employee hired by the City on or after 12/13/78 but before 1/1/95 shall not participate until 1/1/95.
- C. Each other employee hired by the City on or after 1/1/95 shall become a participant on the employee's date of hire.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Police (Contd.)

Funding Policy - The authority under which obligations to the plan by the plan members, employer and other contributing entities are established and may be amended by PA Act 205 and Plan ordinance. Contributions can be provided by State Aid and Local Government or Employee Contributions. Active plan members are required to contribute 6% of pensionable compensation, plus a service increment of 50 cents per day. The City required contribution rate is in accordance with funding policy, in dollars or as a percentage of the current years covered payroll per the Minimum Municipal Obligation under PA Act 205, for the plan year ending December 31, 2008 the contribution was \$414,750.

Annual Required Contribution and Net Pension Obligation - The City's annual pension cost and new pension obligation to the Officers and Employees Plan for the current year were as follows:

Net Pension Obligation (NPO) at	
The beginning of the period	<u>\$ (1,019,377)</u>
Annual pension cost:	
Annual required contribution (ARC)	414,750
Interest on the NPO	(81,550)
Adjustments to the ARC Amortization of NPO	<u>110,272</u>
Annual Pension Cost	443,472
Contributions made	<u>(414,750)</u>
Increase in NPO	<u>28,722</u>
NPO at the end of the period	<u>\$ (990,655)</u>

Actuarial valuation date	January 1, 2007
Actuarial value of Plan assets	<u>\$ 21,007,068</u>
Actuarial accrued liability	<u>\$ 22,814,818</u>
Total unfunded actuarial liability	<u>\$ 1,807,750</u>
Annual Covered Payroll	<u>\$ 3,231,885</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Police (Contd.)

The annual required contribution for the current year was determined as part of the January 1, 2007, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based on the 2008 calendar year. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increases 5.0% compounded annually. The assumptions did not include post-retirement benefits. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on every valuation date.

Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$454,129	100%	(\$426,170)
2007	410,195	100%	(1,019,377)
2008	414,750	100%	(990,655)

NOTE 12 POSTRETIREMENT BENEFITS PLAN

City of Easton Postretirement Benefit Plan

Plan Description - The City of Easton Postretirement Benefit Plan is a single employer-defined benefit plan controlled by plan ordinances. The Plan does not issue a stand-alone financial report.

Plan Membership - Membership consists of active, vested former and retired employees of the City of Easton Fire and Police. Membership of the plan consisted of the following as of January 1, 2007:

	<u>Fire</u>	<u>Police</u>	<u>Total</u>
Active Participants	39	43	82
Vested Former Members	-	3	3
Retired Participants	19	17	36
	<u>58</u>	<u>63</u>	<u>121</u>

Benefit Provisions -

Police

Eligibility for Benefits: Benefits are payable for members who retire after attaining age 50 with 20 years of service. Employees who are hired after January 1, 2006 are not eligible for benefits.

Medical Benefits Payable upon Retirement: eligible retirees may participate in the employer's group medical plan. While under age 65, the group medical plan includes full hospitalization and health benefits. At age 65 and older, the City provides Medigap coverage.

Dependents: Spouses are covered under the Plan indefinitely. Other dependents are covered as long as they are eligible to be covered under the retiree's benefits.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 12 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

Fire

Eligibility for Benefits: Benefits are payable for members who retire after attaining age 50 with 20 years of service.

Medical Benefits Payable upon Retirement: Eligible retirees may participate in the employer's group medical plan. While under age 65, the group medical plan includes full hospitalization and health benefits. At age 65 and older, the City provides Medigap coverage.

Dependents: Spouses are covered under the Plan indefinitely. Other dependents are covered as long as they are eligible to be covered under the retiree's benefits.

Contributions -

Police

Retiree Contributions: In order to maintain coverage, the retiree must reimburse the employer for 40% of the premium quoted by the insurance company.

Grandfathered Provisions: Some existing retirees are covered under the previous provisions.

Fire

Retiree Contributions: In order to maintain coverage, the retiree must reimburse the employer for a specified percentage of the premium quoted by the insurance company. If the retiree has more than 30 years of service at retirement, he must pay 40% of the premium. If the retiree has between 25 and 30 years of service at retirement, he must pay 50% of the premium. If the retiree has between 20 and 25 years of service at retirement, he must pay 75% of the premium.

Grandfathered Provisions: Some existing retirees are covered under the previous provisions.

Annual Required Contribution and Net Benefit Obligation - The City's annual post-retirement benefit cost and net benefit obligation for the current year were as follows:

Net Benefit Obligation at the beginning of the period	\$ -
Annual Benefit Cost:	
Annual Required Contribution (ARC)	\$ 1,173,829
Interest on Net NBO	-
Adjustments to ARC	-
Annual Benefit Obligation	\$ 1,173,829
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(285,243)</u>
Net Benefit Obligation at the end of year	<u>\$ 888,586</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 12 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

The City of Easton has not established a separate irrevocable Trust Fund for Other Post-Employment Benefits and consequently has not provided funding in the form of contributions to a plan. The actuarial calculated Implicit Rate Subsidy amount is estimated by the Actuary, in that claims and expenses for retirees are not tracked separately and the City's costs for retirees generally exceeds the amounts for premiums.

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Fire	1/1/2007	\$0	\$4,593,523	\$4,593,523	0.00%	\$2,500,399	183.71%
Police	1/1/2007	\$0	\$6,068,000	\$6,068,000	0.00%	\$3,014,487	201.29%
Total	1/1/2007	\$0	\$10,661,523	\$10,661,523	0.00%	\$5,514,886	193.32%

Significant Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2007
Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Dollar, 30 Year Open Period
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Interest Rate of Return	4.50%
Health Care Cost Trend Rate	9% in 2007, decreasing 5% per year
Projected salary Increases	5.00%

NOTE 13 LEASE AND OPERATING AGREEMENT

The City of Easton and the Easton Suburban Water Authority entered into a Lease and Operating Agreement on December 5, 2006, to be effective January 1, 2007. The term of the Lease and Operating Agreement shall be twenty-five (25) years from its effective date unless it is extended by mutual agreement of the parties. The City desires and intends to permanently and completely cease providing water service to customers within its municipal boundaries, as well and permanently and completely cease selling water to the Authority for distribution outside of the municipal boundaries of the City.

Commensurate with the City's abovementioned intent, the Authority desires and intends to assume responsibility for the operation of the City water supply and distribution systems inclusive of the water treatment and filtration plant hereafter collectively referred to as the "Water System" by utilizing facilities, equipment, materials, and supplies currently used by the City for the purpose.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 13 LEASE AND OPERATING AGREEMENT (Contd.)

The Authority desires and intends to assume responsibility for administrative aspects of operating the Water System and further intends to assume responsibility in determining the financial and operational feasibility of capital improvements, repairs, replacements and upgrades needed to provide water service both within and outside of the municipal boundaries of the City.

The 1958 Lease Agreement, as amended in 1991 for the distribution systems outside of the City, and the Water Treatment Plant Renovation and Expansion Agreement between the parties remains in force, except as specifically amended by the Lease and Operating Agreement. Water Purchase Agreements, as amended are hereby terminated and are of no further force and effect.

The City hereby leases to the Authority all facilities of the Water System including, but not limited to, its water filtration plant, reservoirs, pumping stations, lines, hydrants, meters, valves, blow-offs, customer services from main to curb box, and all other facilities of the Water System. It is the intention of the parties that each and every City-owned facility utilized in the supply and distribution of water within and outside the municipal boundaries of the City is included under the terms of the lease.

The City and the Authority agree that in return for the Authority operating the Water System for the term of this Lease, and retaining all revenues generated from it, the Authority has complied with the following payment provisions:

- a) Lump Sum Payment - One Million Dollars (\$1,000,000.00) on the effective date of this Agreement;
- b) Debt Forgiveness - All sums due to the Authority from the City (approximately Eight Hundred Thousand Dollars (\$800,000.00) for water treatment plant design, water treatment plant action plan, purchased water rates, etc. shall be forgiven on the effective date of this Agreement;
- c) Reimbursement - Reimbursement of Authority-approved invoiced direct costs related to the Morgan Hill tanks replacement project design and permitting and the City's Large Meter Replacement Program;
- d) Annual Payment - One Million Three Hundred Thousand Dollars (\$1,300,000.00), payable in twelve (12) monthly payments beginning on the 15th day of the first month following the effective date of this Agreement. The amount of the annual payment will be increased by two percent (2%) each year, and calculated by multiplying the immediately preceding annual payment by 1.02%;
- e) Variable Payment - The amount to be paid will equal one-third (1/3) of the capacity portion of the tapping fees collected by the Authority.

Upon termination of the Lease and Operating Agreement, all property, of every type and nature, leased to the Authority by this Agreement as well as all assignable permits and approvals needed to operate the Water System, shall be transferred from the Authority to the City.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 14 CONTINGENT LIABILITIES

Unsettled Pending Litigation

There is present litigation asserting federal and state claims against the City of Easton because of the death of a police officer while on duty. The liability insurance carriers for the City have notified the City that they are reserving the right to deny coverage and this notification has resulted in parallel litigation with one of the carriers. The City's liability insurer has appealed a Court ruling to provide insurance coverage. The City's motion to dismiss the underlying claim of the officer's estate was denied by the Court at the motion to dismiss stage, with leave to reassert at summary judgment stage, the City's in the discovery phase. If both pieces of litigation proceed, the exposure of the City could be significant and in excess of insurance coverage.

The City of Easton is also a defendant in various other lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these various lawsuits will not have a material adverse effect on the financial condition of the government.

CITY OF EASTON
 SCHEDULE OF CAPITAL PROJECT FUNDS
 DECEMBER 31, 2008

	TOTAL	General Reserve	1998 Bond	2004A Bond	1992A Bond	Consolidated Capital
<u>Assets</u>						
Cash & Equivalents	\$ 3,106,692.11	\$ 133,967.15	\$ -	\$ 95,060.67	\$ 29,551.04	\$ 2,848,113.25
Other Receivables	26,561.66	26,561.66	-	-	-	-
Due from Other Funds	196,493.92	37,000.00	-	159,493.92	-	-
Total Assets	\$ 3,329,747.69	\$ 197,528.81	\$ -	\$ 254,554.59	\$ 29,551.04	\$ 2,848,113.25
<u>Liabilities & Fund Balance</u>						
Accounts Payable	\$ 1,273,534.91	\$ -	\$ -	\$ -	\$ -	\$ 1,273,534.91
Deferred Revenue	44,313.00	-	-	-	-	44,313.00
Fund Balance	2,011,899.78	197,528.81	-	254,554.59	29,551.04	1,530,265.34
Total Liab. & Fund Balance	\$ 3,329,747.69	\$ 197,528.81	\$ -	\$ 254,554.59	\$ 29,551.04	\$ 2,848,113.25
<u>Revenues</u>						
Interest Income	\$ 104,394.09	\$ 99,848.75	\$ -	\$ -	\$ 722.88	\$ 3,822.46
Local Income	13,617.30	8,000.00	-	-	-	5,617.30
Note Proceeds	2,305,000.00	-	-	-	-	2,305,000.00
Refund Prior Year	1,052.50	1,052.50	-	-	-	-
Fund Transfers	1,530,718.92	-	-	-	-	1,530,718.92
Total Revenues	3,954,782.81	108,901.25	-	-	722.88	3,845,158.68
<u>Expenditures</u>						
General -						
Equipment	\$ 24,595.24	\$ -	\$ -	\$ -	\$ -	\$ 24,595.24
Buildings	44,800.97	-	-	-	-	44,800.97
Police	200,695.76	-	-	-	-	200,695.76
Fire	946,918.21	-	-	-	-	946,918.21
Planning	67,663.07	-	-	-	-	67,663.07
Highway-						
Equipment	501,017.60	-	-	-	-	501,017.60
Construction	259,605.47	-	-	-	-	259,605.47
Stormdrains	34,590.86	-	-	-	-	34,590.86
Sanitation	74,403.16	-	-	-	-	74,403.16
Recreation Parks	160,603.00	-	-	-	-	160,603.00
Fund Transfers	1,530,718.92	1,248,555.00	282,163.92	-	-	-
Total Expenditures	3,845,612.26	1,248,555.00	282,163.92	-	-	2,314,893.34
Excess Revenues Over/(Under) Expenditures	109,170.55	(1,139,653.75)	(282,163.92)	-	722.88	1,530,265.34
Fund Balance Beginning of Year	1,902,729.23	1,337,182.56	282,163.92	254,554.59	28,828.16	-
Fund Balance End of Year	\$ 2,011,899.78	\$ 197,528.81	\$ -	\$ 254,554.59	\$ 29,551.04	\$ 1,530,265.34

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2008

	TOTAL	Liquid Fuels	State Grants	Federal Grants	Police Property	Rest/Fltn	Alpha Building	Recreation	Open Space	Centre Square	Misc. Grant	Authority CDBG
Assets												
Cash & Equivalents	\$ 917,870.70	\$ 99,592.55	\$ 318,629.48	\$ 26,237.35	\$ 104,086.73	\$ 31,332.76	\$ 225,583.60	\$ 18,843.76	\$ 75,515.20	\$ 17,961.27	\$ 88.00	\$ -
Other Assets	420,000.00	-	-	-	420,000.00	-	-	-	-	-	-	-
Due from Other Funds	21,000.00	-	21,000.00	-	-	-	-	-	-	-	-	-
Other Receivables	374,406.20	-	352,048.38	14,941.13	-	-	210.00	494.69	-	-	6,712.00	-
Total Assets	\$ 1,733,276.90	\$ 99,592.55	\$ 691,677.86	\$ 41,178.48	\$ 104,086.73	\$ 451,332.76	\$ 225,793.60	\$ 19,338.45	\$ 75,515.20	\$ 17,961.27	\$ 6,800.00	\$ -
Liabilities & Fund Balance												
Due to Other Funds	\$ 389,401.62	-	\$ 341,699.62	\$ 40,902.00	-	-	-	-	-	-	\$ 6,800.00	\$ -
Accounts Payable	33,335.30	1,628.43	17,686.59	276.48	-	-	13,243.80	-	-	500.00	-	-
Deferred Revenue	96,904.31	-	95,273.34	-	-	-	1,630.97	-	-	-	-	-
Other Liabilities	70,466.47	-	60,375.00	-	-	-	6,600.63	3,490.84	-	-	-	-
Fund Balance	1,143,169.20	97,964.12	176,643.31	-	104,086.73	451,332.76	204,318.20	15,847.61	75,515.20	17,461.27	-	-
Total Liab. & Fund Balance	\$ 1,733,276.90	\$ 99,592.55	\$ 691,677.86	\$ 41,178.48	\$ 104,086.73	\$ 451,332.76	\$ 225,793.60	\$ 19,338.45	\$ 75,515.20	\$ 17,961.27	\$ 6,800.00	\$ -
Revenues												
Interest Income	\$ 6,074.83	\$ 5,325.49	621.97	-	111.63	-	-	-	-	15.74	-	-
Local Donations	12,127.90	-	-	-	-	-	-	-	-	12,127.90	-	-
Local Government	215,393.46	-	146,075.00	-	-	-	-	-	-	21,356.46	47,962.00	-
Rental Income	341,702.16	-	-	-	-	-	341,702.16	-	-	-	-	-
Recreation Charges	98,029.52	-	-	-	-	-	-	22,514.32	75,515.20	-	-	-
Federal-Community Development	813,173.25	-	-	-	-	-	-	-	-	-	-	813,173.25
Other Grants	28,352.17	-	-	28,352.17	-	-	-	-	-	-	-	-
Shared Revenues	91,316.76	-	-	-	91,516.76	-	-	-	-	-	-	-
State-Liquid Fuels	481,013.18	481,013.18	-	-	-	-	-	-	-	-	-	-
Highways	423,679.75	-	423,679.75	-	-	-	-	-	-	-	-	-
Public Safety	42,507.00	-	42,507.00	-	-	-	-	-	-	-	-	-
Community Development	439,962.60	-	439,962.60	-	-	-	-	-	-	-	-	-
Recreation	365,563.35	-	365,563.35	-	-	-	-	-	-	-	-	-
Refund Prior Year Expenditures	2,709.91	-	-	-	-	-	-	-	-	2,709.91	-	-
Total Revenues	3,361,803.84	486,338.67	1,418,409.67	28,352.17	91,628.39	-	341,702.16	22,514.32	75,515.20	36,210.01	47,962.00	813,173.25
Expenditures												
General-Buildings	\$ 341,060.15	-	-	-	-	-	\$ 341,060.15	-	-	-	-	-
Public Safety-Fire	43,567.77	-	43,567.77	-	-	-	-	-	-	-	-	-
Police	37,340.49	-	-	31,741.39	5,599.10	-	-	-	-	-	-	-
Sanitation/Recycling	7,890.16	-	7,890.16	-	-	-	-	-	-	-	-	-
Highways - Snow	59,578.52	59,578.52	-	-	-	-	-	-	-	-	-	-
Street Lighting	383,110.69	383,110.69	-	-	-	-	-	-	-	-	-	-
Construction	537,795.43	-	537,795.43	-	-	-	-	-	-	-	-	-
Recreation-Parks	394,887.65	-	288,066.00	103,566.65	-	-	-	-	-	-	3,255.00	-
Trees	11,219.47	-	7,844.47	-	-	-	-	-	-	-	3,375.00	-
Other	66,566.99	-	25,863.69	24,995.80	-	-	-	15,707.50	-	-	-	-
Community Development-Urban	1,056,854.70	-	202,349.45	-	-	-	-	-	-	-	41,332.00	813,173.25
Economic	137,921.56	-	108,169.14	-	-	-	-	-	-	29,752.42	-	-
Total Expenditures	3,077,793.38	442,689.21	1,221,546.11	160,303.84	5,599.10	-	341,060.15	15,707.50	-	29,752.42	47,962.00	813,173.25
Excess Revenues Over/(Under) Expenditures	284,012.26	43,649.46	196,863.56	(131,951.67)	86,029.29	-	642.01	6,806.82	75,515.20	6,457.59	-	-
Fund Balance Beginning of Year	859,156.94	54,314.66	(20,220.25)	131,951.67	18,037.44	451,332.76	203,676.19	9,040.79	-	11,003.68	-	-
Fund Balance End of Year	\$ 1,143,169.20	\$ 97,964.12	\$ 176,643.31	\$ -	\$ 104,086.73	\$ 451,332.76	\$ 204,318.20	\$ 15,847.61	\$ 75,515.20	\$ 17,461.27	\$ -	\$ -

CITY OF EASTON
SCHEDULE OF PRIVATE PURPOSE TRUSTS
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Kleppinger</u>	<u>Hugh Moore</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 9	\$ 66,553	\$ 66,562
Accrued Interest Receivable	-	6,246	6,246
Investments at Fair Value:			
U.S. Government Obligations	-	125,894	125,894
Corporate Bonds	-	303,080	303,080
Corporate Stocks	-	775,257	775,257
Mutual Funds	-	-	-
Total Investments	<u>-</u>	<u>1,204,231</u>	<u>1,204,231</u>
Total Assets	<u>9</u>	<u>1,277,030</u>	<u>1,277,039</u>
<u>Liabilities</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Assets</u>			
Held in Trust for Trust Purposes	<u>\$ 9</u>	<u>\$ 1,277,030</u>	<u>\$ 1,277,039</u>
<u>Additions</u>			
<u>Investment Earnings:</u>			
Net (Decrease) in Fair Value of Investments	\$ -	\$ (370,174)	\$ (370,174)
Interest and Dividends	-	47,604	47,604
Net Realized (Losses)	-	(165,740)	(165,740)
Total Investment Earnings	<u>-</u>	<u>(488,310)</u>	<u>(488,310)</u>
Less: Investment Expense	-	(24,269)	(24,269)
Net Investment Earnings (Losses)	<u>-</u>	<u>(512,579)</u>	<u>(512,579)</u>
<u>Deductions</u>			
Payments in Accordance with Trust Agreements	<u>(643)</u>	<u>(90,914)</u>	<u>(91,557)</u>
Total Deductions	<u>(643)</u>	<u>(90,914)</u>	<u>(91,557)</u>
Changes in Net Assets	(643)	(603,493)	(604,136)
Net Assets - Beginning of Year	652	1,880,523	1,881,175
Net Assets - End of Year	<u>\$ 9</u>	<u>\$ 1,277,030</u>	<u>\$ 1,277,039</u>