

**CITY OF EASTON
EASTON, PENNSYLVANIA**

**BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2011**

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

CITY OF EASTON
BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
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DECEMBER 31, 2011

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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, Pennsylvania as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Easton, Pennsylvania'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 and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Easton, Pennsylvania as of December 31, 2011, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 18 and 25 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the City of Easton, Pennsylvania's financial statements as a whole. The accompanying supplemental information such as the Schedules of Capital Project and Non-Major Governmental 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
September 25, 2012

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 the City of Easton, Pennsylvania, as of and for the year ended December 31, 2011, which collectively comprise the City of Easton, Pennsylvania's basic financial statements and have issued our report thereon dated September 25, 2012. 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

Management of the City of Easton, Pennsylvania, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Easton, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Easton, Pennsylvania'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.

A *deficiency in internal control* 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, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting. Reference number 2011-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, Pennsylvania'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, Pennsylvania in a separate letter dated September 25, 2012

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
September 25, 2012

Palmer and Company

**CITY OF EASTON, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Easton (City) for the year ended December 31, 2011. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to financial statements in order to obtain a thorough understanding of the City's financial condition as of December 31, 2011. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS AND EXECUTIVE SUMMARY

In 2011, the City continued its strong financial performance. The City's basic financial statements highlight this performance. For your convenience and information, the management of the City provides these financial highlights and executive summary:

- ***Fifth General Fund Surplus in a Row*** – The City is pleased to report its fifth General Fund surplus in a row (fiscal year 2007 through fiscal year 2011). The City's surplus from operating activities was \$112,467 in 2011. As in past years, this small, positive net surplus reflects an aggressive approach to collect as much revenue as possible, fiscal discipline, and restraint in spending.
- ***S&P Bond Rating of A- (Stable) Confirmed*** – In 2010, rating agency Standard and Poors (S&P) upgraded the bond rating for the City to A- (stable). In October 2011, S&P issued a follow-up report (in conjunction with a bond issue by the City) and “affirmed its A-rating and stable outlook on the City's outstanding General Obligation debt.” In its report, S&P stated that “if the City continues its strong financial performance, we would consider an upgrade.”
- ***Adopted Fund Balance Policy*** – In December 2011, the City Council adopted a financial policy to achieve certain fund balances by December 2016. Specifically:
 - 1) ***Minimum General Fund Balance*** – Set “at a minimum of 10% of budgeted general fund revenues” by 2016 or \$2.88 million using the 2012 budget for reference. As of December 31, 2011, the City had a General Fund balance of \$2,539,381, which is over 88% of the minimum goal.
 - 2) ***Minimum Health Care Fund Balance*** – “Should maintain a balance of \$3,000,000” by 2016. As of December 31, 2011, the City had a Health Care Fund Balance of \$2,759,747, which is 92% of the minimum goal.
 - 3) ***Minimum Liability and Casualty Fund Balance*** – “Should maintain a balance of \$1,500,000” by 2016. As of December 31, 2011, the City had a Liability and Casualty Fund Balance of \$550,811, which is over 36% of the minimum goal, after an increase of almost \$350,000 in 2011.

- **Issued Over \$7.7 Million in General Obligation Bonds** – The bond issue closed in November 2011 and is intended to achieve four goals:
 - 1) **Lock-in Historically Low Municipal Interest Rates** – The City will recognize significantly lower future interest payments on two previously issued notes – the 2004 Note with First Star Bank and the 2004A Note with Keystone Nazareth Bank & Trust (KNBT). These two Notes were refinanced in the 2011 issue, and have an average coupon of less than 3.12%.
 - 2) **Convert Variable Rate Interest to a Fixed Rate** – The 2004A Note with KNBT had been scheduled to become a variable interest rate debt issue at the end of 2014. The City takes a conservative view on debt and prefers fixed interest vehicles. Therefore, the City took the refinancing as an opportunity to convert this Note to a fixed interest rate.
 - 3) **Provide a Smoother Overall Debt Schedule** – The City's debt service was scheduled to have particularly high total payments due in 2013 and 2014. Following this reissue, the debt schedule has been smoothed between the years 2012 and 2018, providing for a more level debt service payment in all years. Beginning in 2019, the City is scheduled to have a considerably lower cumulative debt service payment due.
 - 4) **Provide Resources for Necessary Capital Projects** – The City added \$1.05 million in new money for various Department of Public Works (DPW) projects.
- **Significant Increase in Net Assets** – As presented on the Government-wide statements, the assets of the City exceeded its liabilities at the close of 2011 by \$15,927,178. This is an increase of \$1,879,352 or over 13.3% from the prior year.
- **Significant Increase in Combined Fund Balances** – As of December 31, 2011, the City's Governmental Fund financial statements reported combined ending fund balances of \$4,831,857 – an increase of \$279,825 or over 6.1% from the prior year.
- **Significant Decrease in Long-term Debt** – As of December 31, 2011, the City's long-term debt is \$39,296,958 – a reduction of more than \$650,000 or 1.5% from the prior year.

These highlights are detailed in the information provided below.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Supplementary information

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the City's pension and other post-employment benefit plans and budget-to-actual figures for the General Fund and other budgeted major funds. In addition to these required elements, an optional supplementary section is included with other statements that provide particulars about minor funds.

The basic financial statements present two different views of the City.

- ***Government-wide Financial Statements*** – The first two statements provide a broad overview of the City's overall financial status as well as the financial status of the City's component units, in a manner similar to private-sector business.
- ***Fund Financial Statements*** – The remaining statements focus on individual parts of City government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
 - 1) *Government Funds Statements* show how general government services such as public safety were financed in the short term, as well as what remains for future spending.
 - 2) *Proprietary Funds Statements* offer short-term and long-term financial information about the activities the City operates like a business.
 - 3) *Fiduciary Funds Statements* reflect activities involving resources that are held by the City as a trustee or agent for the benefit of others, including the City's retirement plans. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the City's programs.

Table A-1 summarizes the major features of the City's financial statements, including the area of the City's activities they cover and the types of information they contain.

Table A-1: Major features of the government-wide and fund financial statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Business-type	Fiduciary
Scope	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the City, such as public safety and public works	The business-type activities of the City.	Instances in which the City administers resources on behalf of others, such as the employee pension plans
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of Revenues, Expenditures, and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not contain capital assets, although they can
Types of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

Government-wide financial statements

Government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

- The Statement of Net Assets includes all of the City's assets and liabilities, except fiduciary funds, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The Statement of Activities focuses on how the City's net assets changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not related to a particular program), it shows to what extent each program has had to rely on local taxes for funding.

All changes to net assets are recorded using the accrual method of accounting, which requires that revenues are recorded when they are earned and expenses are recorded when the goods and/or services are received, regardless of when cash is received or paid.

Net assets are one way to measure the City's financial position. Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial position is improving or deteriorating. However, other non-financial factors such as changes in the City's real property tax base and general economic conditions must be considered to assess the overall position of the City.

The primary government and its component units are included in the government-wide financial statements. Component units reflect the activities of legally separate government entities over which the City can exercise influence and/or be obligated to provide financial support. The City has three discretely presented component units including the Easton Suburban Water Authority, the Easton Parking Authority, and the Easton Municipal Authority. Two additional component units, the Easton Redevelopment Authority and the Easton Housing Authority, are not presented in the financial statements.

There are two categories of activities for the primary government.

- *Governmental activities* include the City's basic services such as general government, public safety, community development, public works, health and sanitation, parks and recreation. Property taxes and operating grants and revenues finance most of these activities.
- *Business-type activities* generally charge a fee to customers to help cover the cost of services.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Capital assets are reported as expenditures when financial resources (monies) are extended to purchase or build assets in the fund financial statements. Likewise, the financial

resources that may have been borrowed are considered revenue when they are received in the fund financial statements. Principal and interest payments are both considered expenditures when paid in the fund financial statements. Depreciation is not calculated as it does not provide or reduce current financial resources in the fund financial statements.

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Assets:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocated the depreciation to the proper program/activities
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net assets balances as follows:
 - Net assets invested in capital assets, net of related debt
 - Restricted net assets are those with constraints placed on their use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted net assets are net assets that do not meet any of the above restrictions.

Fund financial statements

Fund financial statements provide more detailed information on the City's most significant funds, *not the City as a whole*. Funds are accounting devices, i.e., a group of related accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Governmental fund financial statements are reported using current financial resources and modified accrual accounting established by the Governmental Accounting Standards Board (GASB) for governments.

The City has three kinds of funds:

- *Governmental funds* include most of the City's basic services and focus on: (1) the flow in and out of cash and other financial assets that can be readily converted to cash and (2) the balances left at year-end that are available for spending. The eighteen governmental funds that the City maintains are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs. The primary governmental funds are General, Debt Service, Capital & Bond, and State Grants.

The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

Proprietary funds report business-type programs and activities that charge fees designed to cover the cost of providing services. They report using the full accrual basis of accounting.

Fiduciary funds are funds for which the City is the trustee or fiduciary. The City is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's total assets were \$62.77 million at December 31, 2011. Of this amount, \$27.5 million was capital assets, including infrastructure and construction in progress. Prior to the adoption of GASB No. 34 in 2003, infrastructure (roads, bridges, etc.) had not been reported or depreciated in governmental financial statements.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The City believes it has included all infrastructure in the 2011 financial statements.

City of Easton, Pennsylvania
Management's Discussion and Analysis

Table A-2: Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current & other assets	\$14,639,367	\$14,172,383	\$425,660	241,214	\$15,065,027	14,413,597
Capital assets, net	27,500,406	25,142,091	-	-	27,500,406	25,142,091
Other non-current assets	20,199,789	21,051,770	-	-	20,199,789	21,051,770
Total assets	62,339,562	60,366,244	425,660	241,214	62,765,222	60,607,458
Current and other liabilities	4,087,884	4,180,115	107,998	198,646	4,195,882	4,378,761
Long-term liabilities	42,324,500	42,138,303	123,386	18,002	42,447,886	42,156,305
Total liabilities	46,412,384	46,318,418	231,384	216,648	46,643,767	46,535,066
Net assets:						
Invested in capital assets, net of debt	9,226,181	7,043,388	-	-	9,226,181	7,043,388
Restricted net assets	3,334,245	2,463,573	-	-	3,334,245	2,463,573
Unrestricted net assets	3,366,752	4,540,865	194,276	24,566	3,561,028	4,565,431
Total net assets	15,927,178	14,047,826	194,276	24,566	16,121,454	14,072,392

During 2011, the assets of the City exceeded its liabilities (total net assets) at the close of 2011 by \$15,927,178. This is an increase of \$1,879,352 (over 2010 net assets) or a percentage increase of 13.3%.

City of Easton, Pennsylvania
Management's Discussion and Analysis

Table A-3: Changes in net assets

The following statement of activities represents changes in net assets for the year ended December 31, 2011. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$12,965,793	\$12,872,799	\$4,231,724	\$4,074,148	\$17,197,517	\$16,946,947
Operating grants and contributions	6,736,304	5,038,949	119,764	25,390	6,856,068	5,064,399
Capital grants	7,807,664	6,190,083	-	-	7,807,664	6,190,083
General revenues:						
Taxes	13,930,058	13,573,212	-	-	13,930,058	13,573,212
Investment earnings	231,208	77,477	-	-	231,208	77,477
Misc. revenues	327,665	250,913	-	-	327,665	250,913
Total revenues	41,998,692	38,003,433	4,351,488	4,099,538	46,350,180	42,102,971
Expenses:						
General government	1,550,850	5,496,988	-	-	1,550,850	5,496,988
Public safety	14,609,201	14,269,540	-	-	14,609,201	14,269,540
Health & Welfare	61,457	50,287	-	-	61,457	50,287
DPW – Sanitation	5,400,139	5,400,055	-	-	5,400,139	5,400,055
DPW – Highways	3,579,147	1,821,212	-	-	3,579,147	1,821,212
Other Public Works	5,631,498	415,132	-	-	5,631,498	415,132
Culture – Recreation	3,382,813	2,121,506	-	-	3,382,813	2,121,506
Community Development	1,542,514	6,221,195	-	-	1,542,514	6,221,195
Debt Service	5,036,834	4,281,942	-	-	5,036,834	4,281,942
Sewer fund	-	-	3,825,061	3,786,457	3,825,061	3,786,457
Total expenses	40,794,453	40,077,851	3,825,061	3,786,457	44,619,514	43,864,308
Change in net assets before transfers	1,204,239	(2,074,424)	526,427	313,081	1,730,666	(1,761,337)
Transfers	374,719	221,490	(374,719)	(221,490)	-	-
Refund of Prior Year Expense	300,393	373,823	18,002	79	318,395	373,902
Change in net assets	1,879,351	(1,479,111)	169,710	91,670	2,049,061	(1,387,435)
Net assets, beginning	\$14,047,826	15,526,937	24,566	(67,104)	14,072,392	15,459,833
Net assets, ending	\$15,927,177	14,047,826	194,276	24,566	16,121,453	14,072,392

Total government-wide revenues of \$46.35 million came primarily from charges for services of \$17.19 million, representing 36.8% of the total. Taxes at \$13.93 million made up the second largest source at 29.8%. Capital grants of \$7.81 million, representing 16.7%, were the third largest source. Operating grants and contributions of \$6.74 million, representing 14.4%, were the fourth largest source. All other revenue sources made up the remaining 2.3%.

City of Easton, Pennsylvania
 Management's Discussion and Analysis

Total expenses for all programs in 2011 were \$44.62 million. The expenses cover a range of services, with the largest two being public safety at \$14.6 million or 32.75% and public works at \$14.6 million or 32.75%.

Capital Assets

The City's investment in capital assets at December 31, 2011, net of accumulated depreciation, was \$27.5 million. Capital assets consist primarily of land, site improvements, buildings and improvements, machinery & equipment, infrastructure, water treatment plant, and construction in progress. Table A-4 is a summary of capital assets as of December 31, 2011 and 2010.

Table A-4: Capital assets at December 31, 2011 and 2010

	Governmental Activities	
	2011	2010
Land (Not Depreciated)	\$7,672,373	\$4,714,104
Site Improvements	187,416	195,083
Buildings & Improvements	6,886,526	7,111,468
Machinery & Equipment	3,228,669	3,119,427
Infrastructure	999,390	1,064,170
Water Treatment Plant	8,333,327	8,745,134
Construction In Progress	192,705	192,705
Total Capital Assets (net of depreciation)	\$27,500,406	\$25,142,091

During 2011, the City purchased two large parcels of land in Downtown Easton. These two parcels will one day be the home of the Easton Intermodal Center and a large commercial building. With this one exception, the change in capital assets was minimal between 2010 and 2011.

Long-term Debt

At December 31, 2011, the City had \$39.33 million of debt outstanding, including bonds, notes, and master lease purchase agreements. This was a net decrease of more than \$625,000 from the previous year. Table A-5 provides a summary of outstanding debt.

Table A-5: Summary of outstanding debt

	Governmental Activities	
	2011	2010
<i>Pension Debt Obligations</i>		
Bond Series of 2005	\$8,620,000	\$8,820,000
Bond Series of 2007	13,168,000	13,802,000
<i>Capital Debt Obligations</i>		
Bond Series of 2011	7,715,000	-
Note Series of 2010 (Wells Fargo Bank)	1,740,964	1,655,309
Note Series of 2004 (First Star Bank)	-	3,690,000
Note Series of 2004A (KNBT)	-	2,718,000
Bond Series of 1992B	405,964	838,332
<i>Other Debt Obligations</i>		
Master Lease Purchase Agreement	864,030	914,605
EMA Note Series of 2010 (TD Bank)	4,521,000	4,996,000
EMA Note Series of 2005 (Wells Fargo Bank)	2,292,000	2,521,000
Total Outstanding Debt	\$39,326,958	\$39,955,246

The City issued over \$7.7 Million in GO Bonds (Bond Series of 2011). The bond issue closed in November 2011 to achieve four goals (1) lock-in historically low municipal interest rates, (2) convert variable rate interest to a fixed rate, (3) provide a smoother overall debt schedule, and (4) provide resources for necessary capital projects.

Bond Rating

In 2010, rating agency Standard and Poors (S&P) upgraded the bond rating for the City to A- (stable). In October 2011, S&P issued a follow-up report (in conjunction with a bond issue by the City) and "affirmed its A- rating and stable outlook on the City's outstanding General Obligation debt." In its report, S&P state that "if the City continues its strong financial performance, we would consider an upgrade."

GOVERNMENTAL FUNDS

The City of Easton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of government funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year. Governmental fund accounting was not affected by the adoption of GASB No. 34. Therefore, a schedule is presented to reconcile the fund statements to the government-wide statements.

The City's governmental funds include the general fund, debt service fund, capital and bond funds, state grants fund, and other governmental (minor) funds. The general fund is the chief operating fund for the City. The debt service fund is used to record the funding and payment of principal and interest on the issuance of debt in the governmental funds. The capital projects funds account for the proceeds of bond issues, note issues, and extraordinary revenue used to

City of Easton, Pennsylvania
Management's Discussion and Analysis

fund short-term capital needs. The major funds are shown on the Statement of Revenues, Expenditures, and Changes in Fund Balance in the financial statements.

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2011 and 2010 were as follows. Table A-6 also presents changes from 2010 to 2011.

Table A-6: Revenues by source, governmental funds

	2011	2010	Changes from 2010 to 2011	Percent change
Revenues:				
Taxes	\$14,248,255	\$14,575,825	(\$327,570)	(2.25)
Licenses	564,184	357,983	206,201	57.60
Fines & Forfeits	814,874	835,693	(20,819)	(2.49)
Interest & Rents	2,044,416	1,802,421	(241,995)	(13.43)
Intergovernmental	14,543,968	11,220,651	3,323,317	29.62
Charges for Services	10,439,938	10,134,179	305,759	3.02
Miscellaneous	299,164	217,824	81,340	37.34
Total revenues	\$42,954,799	\$39,144,576	\$3,810,223	9.73

Governmental fund revenues totaled \$42.95 million for the year ended December 31, 2011. This is an increase of \$3.81 million, primarily due to an increase in grant receipts from the Commonwealth of Pennsylvania and the Federal government.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2011 and 2010 were as follows. Table A-7 also presents changes from 2010 to 2011.

Table A-7: Expenditures by function, governmental funds

	2011	2010	Changes from 2010 to 2011	Percent change
Expenses:				
General Government	\$5,876,104	\$10,372,494	(\$4,496,390)	(43.35)
Public Safety	14,318,742	13,678,841	639,901	4.68
Health & Welfare	61,457	50,287	11,170	22.21
DPW – Sanitation	5,383,723	5,372,190	11,533	0.21
DPW – Roads	3,679,740	1,771,852	1,907,888	107.68
DPW – Other	5,594,368	348,278	5,246,090	1506.29
Culture – Recreation	3,414,519	2,113,207	1,301,312	61.58
Urban Development	4,500,783	6,221,195	(1,720,412)	27.65
Debt Service	4,957,761	4,716,586	241,175	5.11
Total expenses	\$47,787,197	\$44,644,930	\$3,142,267	7.04

Governmental fund expenditures totaled \$47.79 million for the year ended December 31, 2011, an increase of 7.04% from 2010. In 2010, the general government expenditures included a large

City of Easton, Pennsylvania
 Management's Discussion and Analysis

lawsuit payment of \$4.9 million – accounting for the difference between 2010 and 2011. Similarly, large increase in 2011 expenditures for the Department of Public Works can be explained by the expenditure of grant revenues from the Commonwealth of Pennsylvania and the Federal government.

Governmental fund balances

Table A-8 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2011 and 2010.

**Table A-8: Ending fund balances, governmental funds
 Net assets, enterprise funds**

	2011		2010	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$2,539,381	-	\$2,426,914	-
Debt Service	309,344	-	70,852	-
Capital & Bond	902,404	-	634,694	-
State Grants	195,797	-	319,776	-
Other Governmental	884,931	-	1,099,796	-
Health	-	\$2,759,747	-	2,247,858
Insurance	-	550,811	-	201,293
Unemployment	-	23,687	-	14,422
Sewer	-	194,276	-	24,566
Total	\$4,831,857	\$3,528,521	\$4,552,032	\$2,488,139

The City's governmental funds reported a combined fund balance of \$4.83 million at December 31, 2011. The City's proprietary funds reported a combined fund balance of \$3.33 million at December 31, 2011.

In 2011, \$2.22 million (or 87.4%) of the general fund balance was designated as unassigned. The balance sheet for government funds provides a breakdown for all fund balances as required by GASB 54.

Budgetary highlights

The Easton City Council approves the operating budgets for the general fund and several other funds as required by City Charter and City ordinance. According to City charter, the expense budget may be changed in one of two ways. First, the budget may be changed via administrative transfer between specific line items from other line items or from contingency funds established in the budget. Second, new appropriations are budgeted when received (via City ordinance) and the anticipated related expense is budgeted at the same time.

Because the City is on a different fiscal year than the Commonwealth and the Federal government, it is difficult to know what grants will be forthcoming in the City's fiscal year. Some revenue variances are due to budgeting for grants not received. Other revenue variances are based on grants received but not anticipated. Otherwise, actual results were relatively close to budget amounts, which is consistent with the City's current conservative budgeting philosophy.

Collective Bargaining Issues

During the course of 2011, multi-year agreements remained in place with all three labor unions: Fraternal Order of Police (FOP) Lodge 17, International Association of Fire Fighters (IAFF) Local 713, and American Federation of State County and Municipal Employees Local 447. The FOP Lodge 17 contract ended on December 31, 2011, and a new three-year contract was negotiated prior to the end of the year – a compromise which was pleasing to both management and labor. The contracts with IAFF Local 713 and AFSCME Local 447 end on December 31, 2012. The City believes that, in the spirit of continued healthy labor management, labor and management will be able to come to an agreement on both contracts before the end of next year. We further expect both agreements to result in multi-year contracts.

Economic Condition and Outlook

The vision of Easton's future growth and prosperity is built upon its proud history as a cultural, commercial, industrial, and transportation hub. Easton is now poised as a destination for tourists, artists, investors, residents and retail, restaurant, and service businesses. With over 27,000 residents within a region of 540,000, Easton is a full service working community that maintains industrial areas with light manufacturing, distribution and warehousing, a vibrant downtown, and residential neighborhoods.

Home to the Crayola Experience, National Canal Museum, Northampton County Historical and Genealogical Museum, and the State Theatre, Easton welcomes over 500,000 visitors annually. Easton offers superior accessibility, enticing small-town ambiance, the prestigious Lafayette College, and diverse culture and historic attractions. Businesses affiliated with the arts will find Easton in the midst of resurgence in the fine, industrial and creative arts. An active and growing artist community is complemented by galleries displaying nationally known as well as local artists' work. Much of the revitalization of Easton's Downtown can be attributed to the success of Easton's restaurants which have added vibrancy to the downtown in the evenings.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information and complete financial statements for the discretely presented component units should be addressed to the Director of Finance, City of Easton, 1 South Third Street, Second Floor, Easton, Pennsylvania, 18042.

CITY OF EASTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total	Component Units
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 5,170,030	\$ 369,357	\$ 5,539,387	\$ 4,516,785
Taxes Receivable (net)	1,597,863		1,597,863	-
Other Receivables	6,013,955	55,818	6,069,773	2,234,357
Prepaid Items	-	485	485	19,303
Other Assets	1,004,574		1,004,574	235,843
Current Portion of Net Pension Asset and Capitalized Issuance Costs	852,944		852,944	-
Total Current Assets	14,639,366	425,660	15,065,026	7,006,288
Non-Current Portion of Net Pension Asset, Capitalized Issuance and Lease Purchase	20,199,789	-	20,199,789	800,000
Capital Assets (net of depreciation):				
Land	7,672,373	-	7,672,373	498,075
Site Improvements	187,416	-	187,416	-
Buildings and Improvements	6,886,526	-	6,886,526	8,364,667
Machinery and Equipment	3,228,669	-	3,228,669	2,060,391
Infrastructure	999,390	-	999,390	65,176,850
Water Treatment Plant	8,333,327	-	8,333,327	20,912,791
Construction in Progress	192,705	-	192,705	-
Total Non-Current Assets	47,700,195	-	47,700,195	97,812,774
Total Assets	\$ 62,339,561	\$ 425,660	\$ 62,765,221	\$ 104,819,062
<u>Liabilities and Net Assets</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 1,247,643	\$ 92,511	\$ 1,340,154	\$ 152,248
Other Current Liabilities	348,125	-	348,125	319,295
Accrued Salaries Payable	228,830	15,487	244,317	-
Accrued Interest Payable	249,479	-	249,479	2,712
Contracts Payable - Completed Portion	-	-	-	32,617
Deferred Income	-	-	-	7,979
Current Portion -				
Bonds Payable	1,846,251	-	1,846,251	1,338,600
Compensated Absences	167,556	-	167,556	-
Non-Current Portion -				
Bonds Payable	37,480,707	-	37,480,707	35,743,465
Compensated Absences	1,468,100	123,386	1,591,486	-
Post-Employment Benefits	3,375,693	-	3,375,693	-
Total Liabilities	46,412,384	231,384	46,643,767	37,596,916
<u>Net Assets</u>				
Invested in Capital Assets and Net Pension Assets	9,226,181	-	9,226,181	60,608,759
Restricted for Insurance Purposes	3,334,245	-	3,334,245	-
Unrestricted	3,366,751	194,276	3,561,027	6,613,387
Total Net Assets	15,927,177	194,276	16,121,453	67,222,146
Total Liabilities and Net Assets	\$ 62,339,561	\$ 425,660	\$ 62,765,220	\$ 104,819,062

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

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	Total	
Governmental Activities								
General Government	\$ (1,550,850)	\$ 1,880,424	\$ 2,690,683	\$ 326,876	\$ 3,347,133	\$ -	\$ 3,347,133	\$ -
Public Safety	(14,609,201)	1,936,371	473,093	-	(12,199,738)	-	(12,199,738)	-
Health and Welfare	(61,457)	44,650	16,550	-	(257)	-	(257)	-
Public Works - Sanitation	(5,400,139)	8,532,961	-	-	3,132,822	-	3,132,822	-
Public Works - Highways	(3,579,147)	178,616	480,001	1,747,553	(1,172,977)	-	(1,172,977)	-
Public Works - Other Public Works	(5,631,498)	239,538	30,973	-	(5,360,967)	-	(5,360,967)	-
Culture - Recreation	(3,382,813)	153,214	-	1,110,860	(2,118,739)	-	(2,118,739)	-
Community Development	(1,542,514)	-	3,045,004	4,622,375	6,124,865	-	6,124,865	-
Debt Service	(5,122,489)	-	-	-	(5,122,489)	-	(5,122,489)	-
Total Governmental Activities	\$ (40,880,108)	\$ 12,965,793	\$ 6,736,304	\$ 7,807,664	\$ (13,370,347)	\$ -	\$ (13,370,347)	\$ -
Business-Type Activities								
Sewage Treatment Plant Operations	\$ (3,825,061)	4,231,724	119,764	-	-	526,427	526,427	-
Total Primary Government	\$ (44,705,169)	\$ 17,197,517	\$ 6,856,068	\$ 7,807,664	\$ (13,370,347)	\$ 526,427	\$ (12,843,920)	\$ -
Component Units								
Water and Parking	\$ (11,034,367)	\$ 11,730,131	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 695,764
General Revenues:								
Property and Other Taxes					\$ 13,930,058	\$ -	\$ 13,930,058	\$ -
Sale of Fixed Assets					28,501	-	28,501	-
Miscellaneous					299,164	-	299,164	-
Unrestricted Interest Earnings					231,208	-	231,208	40,348
Interfund Transfers					374,719	(374,719)	-	-
Proceeds from Line of Credit					85,655	-	85,655	-
Refund of Prior Year Expenditures					300,393	18,002	318,395	-
Total General Revenues					15,249,698	(356,717)	14,892,981	40,348
Changes in Net Assets					1,879,351	169,710	2,049,061	736,112
Depreciation Developer Capital					-	-	-	(741,350)
Capital Value Provided by Developers					-	-	-	467,425
Net Assets - Beginning of Year					\$ 14,047,826	\$ 24,566	\$ 14,072,392	\$ 66,759,959
Net Assets - End of Year					\$ 15,927,177	\$ 194,276	\$ 16,121,453	\$ 67,222,146

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

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Debt Service Fund	Capital and Bond Funds	State Grants Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and Cash Equivalents	\$ 1,315,129	\$ 36,468	\$ 1,149,220	\$ 252,110	\$ 757,276	\$ 3,510,203
Taxes Receivable	1,597,863	-	-	-	-	1,597,863
Other Receivables	3,684,605	-	-	2,130,922	194,295	6,009,822
Other Assets	64,765	-	430,352	-	509,457	1,004,574
Due from Other Funds	1,086,674	275,001	1,740,964	-	-	3,102,639
Total Assets	\$ 7,749,036	\$ 311,469	\$ 3,320,536	\$ 2,383,032	\$ 1,461,028	\$ 15,225,101
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Due to Other Funds	\$ 2,298,053	\$ -	\$ 430,352	\$ 2,181,731	\$ 215,555	\$ 5,125,691
Accounts Payable	417,423	2,125	246,817	3,185	225,326	894,876
Accrued Salaries and Benefits	228,830	-	-	-	-	228,830
Other Current Liabilities	46,017	-	-	2,319	118,927	167,263
Other Long-Term Liabilities	180,862	-	1,740,964	-	-	1,921,826
Deferred Revenues	2,038,470	-	-	-	16,289	2,054,759
Total Liabilities	5,209,655	2,125	2,418,133	2,187,235	576,097	10,393,245
<u>Fund Balances:</u>						
Non-Spendable	19,568	-	-	-	-	19,568
Restricted	-	-	-	-	-	-
Committed	300,000	216,642	902,403	-	-	1,419,045
Assigned	-	92,702	-	195,797	884,931	1,173,430
Unassigned	2,219,813	-	-	-	-	2,219,813
Total Fund Balances	2,539,381	309,344	902,403	195,797	884,931	4,831,856
Total Liabilities and Fund Balances	\$ 7,749,036	\$ 311,469	\$ 3,320,536	\$ 2,383,032	\$ 1,461,028	\$ 15,225,101

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, 2011

Total Fund Balances - Governmental Funds \$ 4,831,857

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 \$50,264,135 and the accumulated depreciation is \$22,763,729. 27,500,406

Property taxes, utility charges, and earned income taxes 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. 2,054,759

Internal Service Funds are used to charge the costs of certain activities, such as insurance. The net assets have been included in governmental activities. 3,334,245

Capitalized Bond Issuance Costs to be amortized over future periods 334,392

Net pension asset to be amortized over period of pension debt in accordance with actuarial calculations. 20,718,341

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	(39,326,958)	
Long-Term Debt included in Capital Projects	1,740,964	
Accrued Interest Expense	(249,479)	
Compensated Absences	(1,635,656)	
Post Employment Benefits	(3,375,693)	(42,846,822)

Total Net Assets - Governmental Activities \$ 15,927,178

CITY OF EASTON
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Debt Service Fund	Capital and Bond Funds	State Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 10,597,708	2,854,001	\$ -	\$ -	\$ 796,546	\$ 14,248,255
Licenses and Permits	564,184	-	-	-	-	564,184
Fines and Forfeits	814,874	-	-	-	-	814,874
Interest and Rents	1,647,851	4	-	-	396,561	2,044,416
Intergovernmental	4,055,303	-	298,375	7,850,066	2,340,224	14,543,968
Charges for Service	10,286,724	-	-	-	153,214	10,439,938
Miscellaneous	213,680	-	-	-	85,484	299,164
Total Revenues	<u>28,180,324</u>	<u>2,854,005</u>	<u>298,375</u>	<u>7,850,066</u>	<u>3,772,029</u>	<u>42,954,799</u>
Expenditures:						
General Government	5,198,513	-	242,756	-	434,835	5,876,104
Public Safety	13,593,137	-	174,794	207,419	343,392	14,318,742
Health and Welfare	61,457	-	-	-	-	61,457
Public Works - Sanitation	5,373,727	-	9,996	-	-	5,383,723
Public Works - Roads	1,083,906	-	242,611	1,770,036	583,187	3,679,740
Public Works - Other	354,287	-	-	5,240,081	-	5,594,368
Culture - Recreation	-	-	559,208	756,509	2,098,802	3,414,519
Urban Development	518,274	-	-	-	3,982,509	4,500,783
Debt Service	-	4,957,761	-	-	-	4,957,761
Total Expenditures	<u>26,183,301</u>	<u>4,957,761</u>	<u>1,229,366</u>	<u>7,974,045</u>	<u>7,442,724</u>	<u>47,787,197</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,997,023	(2,103,756)	(930,991)	(123,979)	(3,670,695)	(4,832,398)
Other Financing Sources (Uses)						
Transfers In	-	2,341,059	-	-	109,424	2,450,483
Transfers (Out)	(2,056,034)	-	(19,730)	-	-	(2,075,764)
Proceeds of General Long-Term Debt	-	1,189	1,061,017	-	3,346,406	4,408,612
Sale of Assets	-	-	28,501	-	-	28,501
Refund of Prior Year Expenditures	171,478	-	128,912	-	-	300,390
Total Other Financing Sources (Uses)	<u>(1,884,556)</u>	<u>2,342,248</u>	<u>1,198,700</u>	<u>-</u>	<u>3,455,830</u>	<u>5,112,222</u>
Net Change in Fund Balances	112,467	238,492	267,710	(123,979)	(214,865)	279,824
Fund Balances - Beginning of Year	2,426,914	70,852	634,694	319,776	1,099,796	4,552,031
Fund Balances - End of Year	<u>\$ 2,539,381</u>	<u>\$ 309,344</u>	<u>\$ 902,403</u>	<u>\$ 195,797</u>	<u>\$ 884,931</u>	<u>\$ 4,831,856</u>

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 279,824
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 (\$1,144,266) is less than capital outlays (\$3,502,581) in the period.	2,358,315
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.	628,288
Proceeds of Line of Credit for on-going State-funded capital projects.	85,655
Because some property taxes, utility charges, and earned income taxes 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 decreased by this amount this year.	(984,606)
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 decreased by this amount this year.	297,582
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.	(863,363)
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 decreased by this amount this year.	10,794
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The increase in net assets has been allocated within governmental activities.	870,672
Net pension assets resulting from the funding of the actuarial unfunded pension costs are amortized in the Statement of Changes in Net Assets.	(803,811)
Change in Net Assets of Governmental Activities	<u>\$ 1,879,350</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes	11,299,478	\$ 11,299,478	\$ 10,597,708	(701,770)
Licenses and Permits	483,500	483,500	564,184	80,684
Fines and Forfeits	802,150	812,150	814,874	2,724
Interest and Rents	1,722,173	1,747,173	1,647,851	(99,322)
Intergovernmental	3,269,461	3,453,741	4,055,303	601,562
Charges for Service	9,713,541	9,753,541	10,286,724	533,183
Miscellaneous	700,360	661,360	213,680	(447,680)
Total Revenues	<u>27,990,662</u>	<u>28,210,943</u>	<u>28,180,324</u>	<u>(30,619)</u>
<u>Expenditures:</u>				
General Government	4,728,160	5,274,027	5,198,513	75,514
Public Safety	14,015,067	13,818,537	13,593,137	225,400
Health and Welfare	62,011	62,184	61,457	727
Public Works - Sanitation	5,518,831	5,406,892	5,373,727	33,165
Public Works - Roads	1,021,685	1,121,333	1,083,906	37,427
Public Works - Other	345,979	359,439	354,287	5,152
Urban Development	522,598	520,107	518,274	1,833
Total Expenditures	<u>26,214,331</u>	<u>26,562,519</u>	<u>26,183,301</u>	<u>379,218</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,776,331</u>	<u>1,648,424</u>	<u>1,997,023</u>	<u>348,599</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In/(Out)	(2,056,034)	(1,848,424)	(2,056,034)	(207,610)
Refund of Prior Year Expenditures	279,703	200,000	171,478	(28,522)
Total Other Financing Sources (Uses)	<u>(1,776,331)</u>	<u>(1,648,424)</u>	<u>(1,884,556)</u>	<u>(236,132)</u>
Net Change in Fund Balance	-	-	112,467	112,467
Fund Balance - Beginning of Year	<u>2,426,914</u>	<u>2,426,914</u>	<u>2,426,914</u>	-
Fund Balance - End of Year	<u>\$ 2,426,914</u>	<u>\$ 2,426,914</u>	<u>\$ 2,539,381</u>	<u>\$ 112,467</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual (Budget Basis)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes - Allocated from Levy	2,254,856.00	2,254,856.00	2,254,856	-
Interest Income	-	-	4	4
Total Revenues	<u>2,254,856</u>	<u>2,254,856</u>	<u>2,254,860</u>	<u>4</u>
Expenditures:				
Debt Service Principal	2,212,942	2,212,942	2,047,942	(165,000)
Debt Service Interest	2,958,388	2,958,388	2,906,694	(51,694)
Fiscal Agent Fees	4,000	4,000	3,125	(875)
Total Expenditures	<u>5,175,330</u>	<u>5,175,330</u>	<u>4,957,761</u>	<u>(217,569)</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,920,474)</u>	<u>(2,920,474)</u>	<u>(2,702,901)</u>	<u>217,573</u>
Other Financing Sources (Uses)				
Proceeds from Bonds	-	-	1,189	1,189
Transfers In - Fund Allocations	2,920,474	2,920,474	2,940,204	19,730
Total Other Financing Sources	<u>2,920,474</u>	<u>2,920,474</u>	<u>2,941,393</u>	<u>20,919</u>
Net Change in Fund Balance	-	-	238,492	238,492
Fund Balance - Beginning of Year	<u>70,852</u>	<u>70,852</u>	<u>70,852</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 70,852</u>	<u>\$ 70,852</u>	<u>\$ 309,344</u>	<u>\$ 238,492</u>

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

CITY OF EASTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Internal Service Funds					Total Internal Service Funds
	Sewage Treatment Plant Fund	Health Benefit Fund	Liability Insurance	Unemployment Insurance		
<u>Assets</u>						
Cash and Cash Equivalents	\$ 369,357	\$ 1,073,482	562,602.00	23,743.00	\$	\$ 1,659,827
Accounts Receivable	-	-	4,133	-		4,133
Intergovernmental Receivable	55,818	-	-	-		-
Due from Other Funds	-	2,023,052	-	-		2,023,052
Prepaid Assets	485	-	-	-		-
Total Assets	\$ 425,660	\$ 3,096,534	\$ 566,735	\$ 23,743		\$ 3,687,012
<u>Liabilities</u>						
<u>Current:</u>						
Accounts Payable	\$ 92,511	\$ 336,787	\$ 15,924	\$ 56	\$	\$ 352,767
Accrued Salaries Payable	15,487	-	-	-		-
Total Current Liabilities	107,998	336,787	15,924	56		352,767
<u>Non-Current:</u>						
Compensated Absences	123,386	-	-	-		-
<u>Net Assets</u>						
Restricted for Health Benefits	-	2,759,747	-	-		2,759,747
Restricted for Liability Insurance	-	-	550,811	23,687		574,498
Unrestricted	194,276	-	-	-		-
Total Net Assets	194,276	2,759,747	550,811	23,687		3,334,245
Total Net Assets & Liabilities	\$ 425,660	\$ 3,096,534	\$ 566,735	\$ 23,743		\$ 3,687,012

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Internal Service Funds				
	Sewage Treatment Plant Fund	Health Benefit Fund	Liability	Unemployment Insurance	Total Internal Service Funds
<u>Operating Revenues</u>					
Sewer Treatment Charges	\$ 4,231,724	\$ -	\$ -	\$ -	\$ -
Fund Allocations	-	3,057,771	988,750	26,471	4,072,992
Pension Aid Allocation	119,764	-	-	-	-
Participant Contributions	-	637,015	-	-	637,015
Total Operating Revenue	<u>4,351,488</u>	<u>3,694,786</u>	<u>988,750</u>	<u>26,471</u>	<u>4,710,007</u>
<u>Operating Expenses</u>					
Health Claim Payments	-	3,182,897	-	-	3,182,897
Liability/Unemployment Insurance	-	-	667,814	17,206	685,020
Sewage Treatment Plant Operations	3,825,061	-	-	-	-
Total Operating Expenses	<u>3,825,061</u>	<u>3,182,897</u>	<u>667,814</u>	<u>17,206</u>	<u>3,867,917</u>
Operating Income/(Loss)	<u>526,427</u>	<u>511,889</u>	<u>320,936</u>	<u>9,265</u>	<u>842,090</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Income	-	-	13	-	13
Miscellaneous	-	-	4,123	-	4,123
Transfer (Out)	(374,719)	-	-	-	-
Refund of Prior Year Expenses	18,002	-	24,446	-	24,446
Total Non-Operating Revenues (Expenses)	<u>(356,717)</u>	<u>-</u>	<u>28,582</u>	<u>-</u>	<u>28,582</u>
Change in Net Assets	169,710	511,889	349,518	9,265	870,672
Net Assets - Beginning of Year	\$ 24,566	\$ 2,247,858	\$ 201,293	\$ 14,422	\$ 2,463,573
Net Assets - End of Year	<u>\$ 194,276</u>	<u>\$ 2,759,747</u>	<u>\$ 550,811</u>	<u>\$ 23,687</u>	<u>\$ 3,334,245</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, 2011

	Enterprise Fund Sewage Treatment Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received from Governmental Entities	\$ 4,351,488	\$ -
Participant Contributions	-	637,015
Cash Received from Funds Allocations	-	4,072,992
Payments for Sewage Treatment Operations	(4,185,529)	-
Payments for Insurance and Claims	-	(3,815,180)
Net Cash Provided by Operating Activities	165,959	894,827
Cash Flows from Non-Capital Financing Activities		
Refunds of Prior Year Expenditures	18,002	24,446
Other Revenues	-	4,123
Net Cash Provided (Used) by Non-Capital Financing Activities	18,002	28,569
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	-	13
Net Increase (Decrease) in Cash	183,961	923,409
Cash and Cash Equivalents - Beginning of the Year	185,396	736,418
Cash and Cash Equivalents - End of the Year	\$ 369,357	\$ 1,659,827
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 526,427	\$ 842,090
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease Accounts Receivables	-	45,711
(Increase) Decrease Intergovernmental Receivables	-	(29,090)
(Increase) Decrease Prepaid Items	(485)	15,950
Increase (Decrease) Current Liabilities	(90,648)	20,166
Increase (Decrease) Compensated Absences (Non-Current)	105,384	-
Total Adjustments	14,251	52,737
Net Cash Provided/(Used) by Operating Activities	\$ 540,678	\$ 894,827

CITY OF EASTON
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

<u>Assets</u>	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>Total Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 3,315,232	\$ 105,084	\$ 26,149	\$ 3,446,465
Accrued Interest Receivable	66,319	-	-	66,319
Investments at Fair Value:				
U.S. Treasury	14,069,007	-	-	14,069,007
Corporate Bonds	3,505,331	-	-	3,505,331
Corporate Stocks	14,585,315	-	-	14,585,315
Mutual Funds	643,819	2,531,970	-	3,175,789
DROP Assets	213,324	-	-	213,324
Total Investments	<u>33,016,796</u>	<u>2,531,970</u>	<u>-</u>	<u>35,548,766</u>
Total Assets	<u>\$ 36,398,347</u>	<u>\$ 2,637,054</u>	<u>\$ 26,149</u>	<u>\$ 39,061,550</u>
<u>Liabilities</u>				
Escrow Payable	\$ 213,324	\$ -	\$ 26,149	\$ 239,473
Total Liabilities	<u>213,324</u>	<u>-</u>	<u>26,149</u>	<u>239,473</u>
<u>Net Assets</u>				
Held in Trust for Pension Benefits and and Trust Purposes	<u>\$ 36,185,023</u>	<u>\$ 2,637,054</u>	<u>\$ -</u>	<u>\$ 38,822,077</u>

CITY OF EASTON
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust</u>	<u>Total Fiduciary Funds</u>
<u>Additions</u>			
<u>Contributions:</u>			
Employer	\$ 1,442,552	\$ -	\$ 1,442,552
Plan Members	410,355	-	410,355
Other Sources	395	41,982	42,377
	<u>1,853,302</u>	<u>41,982</u>	<u>1,895,284</u>
<u>Investment Earnings:</u>			
Interest and Dividends	720,169	91,300	811,469
Net Increase/(Decrease) in Fair Value of Investments	1,028,414	(196,358)	832,056
Net Realized Gain/(Losses)	1,024,951	58,949	1,083,900
	<u>2,773,534</u>	<u>(46,109)</u>	<u>2,727,425</u>
Total Investment Earnings	<u>2,773,534</u>	<u>(46,109)</u>	<u>2,727,425</u>
Less: Investment Expense	<u>254,541</u>	<u>14,035</u>	<u>268,576</u>
Net Investment Earnings	<u>2,518,993</u>	<u>(60,144)</u>	<u>2,458,849</u>
Total Net Increases	<u>4,372,295</u>	<u>(18,162)</u>	<u>4,354,133</u>
<u>Deductions</u>			
Benefits	4,368,015	-	4,368,015
Refunds of Contributions	12,163	-	12,163
Administrative Expenses	42,267	-	42,267
Payments in Accordance with Trust Agreements	-	134,435	134,435
	<u>4,422,445</u>	<u>134,435</u>	<u>4,556,880</u>
Total Deductions	<u>4,422,445</u>	<u>134,435</u>	<u>4,556,880</u>
Changes in Net Assets	(50,150)	(152,597)	(202,747)
Net Assets - Beginning of Year	<u>36,235,173</u>	<u>2,789,651</u>	<u>39,024,824</u>
Net Assets - End of Year	<u>\$ 36,185,023</u>	<u>\$ 2,637,054</u>	<u>\$ 38,822,077</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011.

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, 2011.

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, 2011 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

	Easton Suburban Water Authority	Easton Parking Authority	Total
<u>ASSETS</u>			
Current Assets	\$ 6,887,846	\$ 91,490	\$ 6,979,336
Non-current Assets	97,108,892	730,834	97,839,726
Total Assets	<u>\$ 103,996,738</u>	<u>\$ 822,324</u>	<u>\$ 104,819,062</u>
<u>LIABILITIES</u>			
Current Liabilities	\$ 1,786,346	\$ 67,105	\$ 1,853,451
Non-current, Long Term Debt	35,092,015	651,450	35,743,465
Total Liabilities	<u>36,878,361</u>	<u>718,555</u>	<u>37,596,916</u>
<u>NET ASSETS</u>			
Invested in Capital Assets - Net of Related Debt	59,904,877	703,882	60,608,759
Assigned	-	-	-
Unassigned	7,213,500	(600,113)	6,613,387
Total Net Assets	<u>67,118,377</u>	<u>103,769</u>	<u>67,222,146</u>
Total Net Assets and Liabilities	<u>\$ 103,996,738</u>	<u>\$ 822,324</u>	<u>\$ 104,819,062</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

	<u>Easton Suburban Water Authority</u>	<u>Easton Parking Authority</u>	<u>Total</u>
<u>Expenses</u>			
Parking related administrative and direct operating	\$ -	\$ 564,748	\$ 564,748
Water system related administrative and direct operating	8,047,996	-	8,047,996
Depreciation	<u>2,421,623</u>	<u>-</u>	<u>2,421,623</u>
Total Expenses	<u>10,469,619</u>	<u>564,748</u>	<u>11,034,367</u>
Parking Garage Revenues	-	605,264	605,264
Water System Revenues	<u>11,124,867</u>	<u>-</u>	<u>11,124,867</u>
Net Program Revenues	<u>655,248</u>	<u>40,516</u>	<u>695,764</u>
Non-Operating Revenues (Expenses)	(614,232)	(86,770)	(701,002)
Change in Net Assets	41,016	(46,254)	(5,238)
Capital Value Provided by Developers	<u>467,425</u>	<u>-</u>	<u>467,425</u>
Beginning Net Assets	<u>\$ 66,609,936</u>	<u>\$ 150,023</u>	<u>\$ 66,759,959</u>
Ending Net Assets	<u>\$ 67,118,377</u>	<u>\$ 103,769</u>	<u>\$ 67,222,146</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 (now Wells Fargo) 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.

In 2010, a Guaranteed Lease Revenue Note was signed with TD Bank to provide funds for a legal settlement. The City sold the main fire station to the Easton Municipal Authority and entered into a Lease Agreement for the full payment of principal and interest on the 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, 2011 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	\$ <u>6,813,000</u>
<u>Liabilities</u>	
Notes Payable	<u>6,813,000</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, 2011

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	\$ <u>914,576</u>
<u>Disbursements</u>	
Note Payments:	
Interest	210,576
Principal	<u>704,000</u>
Total Disbursements	<u>914,576</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, 2011

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, 2011

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 or 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 net asset value previously reported in a Water Fund has been transferred to the General Fund of the City.

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 transfers from the General, Sewage Management and Recreation 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 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, 2011

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, 2011

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 manage the health, liability, and unemployment 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 used.

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 is sewage treatment charges. Operating expenses for the City's Proprietary Fund include 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, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes and Other Receivables

Taxes Receivable -

Real Estate Taxes	\$ 728,250
Per Capita Taxes	173,426
Earned Income and Real Estate Transfer Taxes	<u>696,187</u>
Total	<u>\$ 1,597,863</u>

Other Receivables - Governmental Activities

General Fund -	
Utility Billings for Sewage, Water, and Refuse	\$ 3,173,298
Other General ongoing receivables	
RCN Franchise Tax	171,304
Casino Revenue	155,551
Other receivables	<u>184,452</u>
Total	<u>\$ 3,684,605</u>

State Grants Fund

Due from the Commonwealth of Pennsylvania	<u>\$ 2,130,922</u>
-------------------------------------------	---------------------

Other Governmental Funds

Due from the Federal Government	\$ 20,066
Due from the Redevelopment Authority	164,076
Due for Recreational Activities	180
Due on rents for the Alpha Building	<u>9,973</u>
Total	<u>\$ 194,295</u>

Liability Insurance Fund

Insurance Settlements	<u>\$ 4,133</u>
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Total Other Receivables	<u>\$ 6,013,955</u>
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CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Property Taxes

Based upon assessed valuations by Northampton County, the City's real estate valuation for taxation purposes was \$350,906,500, 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, 2011 is as follows:

The municipal tax rate for all purposes in 2011 was 24.950 Mills.

General Purposes	15.807 Mills
Debt Purposes	6.683 Mills
Recreational Purposes	<u>2.460 Mills</u>
Total	<u><u>24.950 Mills</u></u>

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

Reconciliation of assessed 2011 Real Estate Taxes:

Taxes Levied based upon adjusted assessment	\$8,814,062
Add: Penalties	80,439
Less: Discounts	(122,004)
Cash Collections	<u>(8,417,805)</u>
Uncollected Balance as of December 31, 2011	<u><u>\$ 354,692</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Earned Income Tax Revenue

The City of Easton earned income tax rate for the year 2009 increased from 0.5% to 1.25%. The collection of the tax revenue from this rate increase was not entirely realized by the City as of December 31, 2010. Estimated 2011 tax revenue collected in the year 2012 and recorded as a receivable is \$680,576; which is recognized as part of total EIT revenue of \$3,801,478.

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.

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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 of \$1,635,656 in the General Fund and \$123,386 in the Sewer Fund. The current portion reported by the General Fund is \$167,556. 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.

Fund Balances

Fund Balance designations have been modified to comply with GASB 54. The new designations are Non-Spendable, Restricted, Committed, Assigned, and Unassigned. The City currently has Non-Spendable, Committed, Assigned, and Unassigned Fund Balances. The City's Non-Spendable fund balance consists of pre-paid assets. The Committed amount in the General Fund is the amount that was committed by City Council to the City's 2012 budget. All other Committed amounts are for the designated purposes of those funds. The Assigned amounts are amounts set aside by management for specific purposes, such as grant matching funds and maintenance of the Alpha Building. Unassigned fund balance is all other amounts.

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, OPEB cost and contributions made, and earned income tax rate variance revenue estimates; accordingly, actual results could differ from those estimates.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is legally 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, and provides Resolutions for individual State Grant programs as they arise. The financial statements reflect the legally adopted General and Debt Service Funds and does not present budgetary comparisons for Capital Project or State Grant 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, 2011, the bank balance of the City's deposits with financial institutions was \$6,219,690 compared to the carrying amount of \$5,507,640. The difference is primarily caused by items in-transit and outstanding checks. \$5,969,690 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 not 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, 2011

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

Governmental and Business-Type Funds: (Contd.)

Reconciliation to Financial Statements

Carrying Amount, Including Petty Cash	\$ 5,507,640
Deposits in Investment Pools Considered to be Cash equivalents	<u>31,747</u>
Total Cash and Equivalents per Financial Statements	<u>\$ 5,539,387</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, 2011

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</u> <u>Value</u>
Federated Treasury and Pennsylvania Local Government Investment Trust Funds	\$ <u>31,747</u>
Reconciliation to Financial Statements:	
Total Investments Above	\$ 31,747
Less: Deposits Considered to be Cash Equivalents, Investment Pools	<u>(31,747)</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, 2011

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Fiduciary-Type Funds:

Private-Purpose Trust and Agency Funds -

	<u>Fair Value</u>
Cash and Cash Equivalents	
Bank and Other Investment Group Prime Obligation Funds	\$ <u>105,084</u>
Total Cash and Cash Equivalents	\$ <u>105,084</u>
Investments (Fair Value)	
Corporate Bonds	\$ 980,414
Corporate Stocks	<u>1,551,556</u>
Total Investments	<u>\$ 2,531,970</u>

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, 2011

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, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents:		
State and Municipal Interest Checking Account	\$ 186,955	\$ 186,955
Evergreen Money Market Fund	<u>3,128,277</u>	<u>3,128,277</u>
Total cash and cash equivalents	<u>\$ 3,315,232</u>	<u>\$ 3,315,232</u>
Investments:		
Equity securities	\$ 14,265,345	\$ 14,585,315
Fixed income securities:		
U.S. Treasury Notes	11,679,299	14,069,007
Corporate Bonds	3,564,450	3,505,331
Commingled Funds:		
U.S. Equity Funds	379,932	643,819
DROP Assets	<u>612,713</u>	<u>213,324</u>
Total investments	<u>\$ 30,501,739</u>	<u>\$ 33,016,796</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011, the bank balance of the Plan's deposits with financial institutions including cash equivalents was \$3,341,092 compared to the carrying amount of \$3,315,232. The difference is primarily caused by outstanding checks. The Plan's deposits of \$3,128,277 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, 2011

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 UBS 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 earned but are not considered to be available to liquidate liabilities of the current period. 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	\$ 839,849
Utility Billings	<u>1,198,621</u>
Total Deferred Revenues	<u>\$ 2,038,470</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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	\$ 2,958,269	\$ 7,672,373
Capital Assets Depreciated:			
Land Improvements	1,028,774	-	1,028,774
Buildings & Improvements	11,359,586	-	11,359,586
Vehicles & Equipment	7,181,808	544,312	7,726,120
Infrastructure	1,694,225	-	1,694,225
Construction in Progress	192,705	-	192,705
Leased Water Plant Assets	20,590,352	-	20,590,352
Total Depreciated Capital Assets	<u>\$ 42,047,450</u>	<u>\$ 544,312</u>	<u>\$ 42,591,762</u>
	<u>\$ 46,761,554</u>	<u>\$ 3,502,581</u>	<u>\$ 50,264,135</u>
Less: Accumulated Depreciation:			
Land Improvements	\$ (833,691)	\$ (7,667)	\$ (841,358)
Buildings & Improvements	(4,248,118)	(224,942)	(4,473,060)
Vehicles & Equipment	(4,062,381)	(435,070)	(4,497,451)
Infrastructure	(630,055)	(64,780)	(694,835)
Leased Water Plant Assets	(11,845,218)	(411,807)	(12,257,025)
Total Accumulated Depreciation	<u>(21,619,463)</u>	<u>(1,144,266)</u>	<u>(22,763,729)</u>
Total Net Capital Assets	<u>\$ 25,142,091</u>	<u>\$ 2,358,315</u>	<u>\$ 27,500,406</u>

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

Governmental Activities:	
General	\$ 263,523
Public Safety	399,529
Sanitation Activities	68,745
Highways & Roads	148,948
Other Public Services	68,744
Recreation	<u>194,777</u>
Total Depreciation Expense -	
Governmental Activities	<u>\$ 1,144,266</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable for:</u>	<u>Payable from:</u>	
Health Benefit Fund	General Fund	\$ 2,023,052
Tax-Exempt Project Fund	State Programs Fund	1,740,964
General Fund	Revolving Loan	430,352
General Fund	State Programs Fund	440,767
General Fund	Federal Programs Fund	20,067
General Fund	Miscellaneous Grant Fund	195,488
Debt Service Fund	General Fund	<u>275,001</u>
		<u>\$ 5,125,691</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	\$ 1,946,610
Sewage Treatment Fund	Debt Service Fund	374,719
Capital Project Fund	Debt Service Fund	19,730
General Fund	Liquid Fuels	<u>109,424</u>
		<u>\$ 2,450,483</u>

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2011

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2011</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
Pension Debt	\$ 22,622,000	\$ -	\$ 834,000	\$ 21,788,000	\$ 885,000
Capital Debt	8,901,641	7,800,655	6,840,368	9,861,928	420,964
Lease Rental Debt	7,517,000	-	704,000	6,813,000	237,000
Capitalized Lease Debt	914,605	-	50,575	864,030	303,287
Post-Employment Benefits	2,512,330	863,363	-	3,375,693	Not Est.
Compensated Absences	<u>1,933,238</u>	<u>-</u>	<u>297,582</u>	<u>1,635,656</u>	<u>-</u>
Total Debt	<u>\$ 44,400,814</u>	<u>\$ 8,664,018</u>	<u>\$ 8,726,525</u>	<u>\$ 44,338,307</u>	<u>\$ 1,846,251</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2011</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
<u>Business-Type Activities:</u>					
Compensated Absences	\$ 122,138	\$ 1,248	\$ -	\$ 123,386	\$ -
 <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.					\$ 13,168,000
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.					8,620,000
 <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.					405,964
General Obligation Note, Series of 2010, maturing through October 15, 2012, maximum principal amount of \$9,050,000. This Note is on a drawdown basis, interest will be charged only on amount of principal withdrawn, interest rate equal to 30-day LOBOR plus 75 basis points, not to exceed 12% per annum (not included in combined amortization schedule of City debt on p. 46)					1,740,964
General Obligation Bond, Series of 2011, maturing through November 15, 2026, maximum principal amount of \$7,715,000, bearing interest ranging from 2.00% to 4.05%, payable semi-annually on May 15 and November 15.					7,715,000
 <u>Other Financing Obligations</u>					
Lease Rental Debt, Easton Municipal Authority, Bank Note 2005, Wells Fargo Bank, maturing through December 1, 2014 bearing interest of 3.58%.					2,292,000
Master Lease Purchase Agreement, 2007, Public Finance Com, Inc. assigned to County Farmers National Bank, 180 monthly payments, final maturity April 15, 2022.					864,030
Lease Rental Debt, Easton Municipal Authority, 2010, TD Bank, maturing through February 15, 2020 bearing interest of 3.89%.					<u>4,521,000</u>
Total					<u>\$ 39,326,958</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

Annual requirements for combined principal and interest costs for Pension, Capital, and other financing obligations are as follows:

<u>Fiscal Year</u>	<u>Combined Principal</u>	<u>Combined Interest</u>	<u>Combined Debt Service</u>
2012	\$ 2,026,250.54	\$ 2,962,578.16	\$ 4,988,828.70
2013	2,750,286.09	1,861,454.66	4,611,740.75
2014	2,609,939.80	1,739,296.00	4,349,235.80
2015	2,632,943.85	1,617,750.40	4,250,694.25
2016	2,740,089.01	1,498,431.29	4,238,520.30
2017	2,856,381.95	1,371,875.80	4,228,257.75
2018	2,985,829.61	1,248,045.79	4,233,875.40
2019	2,217,439.25	1,112,506.95	3,329,946.20
2020	2,337,218.48	992,066.02	3,329,284.50
2021	1,867,175.23	875,735.17	2,742,910.40
2022	2,034,441.42	760,534.68	2,794,976.10
2023	2,010,000.00	642,426.60	2,652,426.60
2024	2,129,000.00	518,189.60	2,647,189.60
2025	1,914,000.00	385,614.30	2,299,614.30
2026	540,000.00	256,449.50	796,449.50
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>\$ 37,585,995.23</u>	<u>\$ 18,805,252.92</u>	<u>\$ 56,391,248.15</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 \$ 2,854,001

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	\$ 286,653
Public Safety	1,121,889
Health and Welfare	9,885
Sanitation	475,458
Highways	128,500
Other Public Works	98,846
Urban Development	14,827
Sewage Treatment Fund Transfer	205,001
Total Transfers	<u>\$ 2,341,059</u>
Interest Income	<u>\$ 4</u>
Total Source of Revenues	<u>\$ 5,195,064</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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. Losses not covered by insurance are discussed in Note 16.

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 \$339,980. The City did contribute this amount to the Trust during the 2011 year. As of December 31, 2011, assets of the Trust Fund amounted to \$173,300. As presented in a Separate Financial Report available at the City's business office, the Trust assets are further designated in the amount of \$124,892 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 \$1,103,007 as of December 31, 2011.

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 (now 2007) 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 in amortizing the Net Pension Asset over the plan's amortization period. Amortization expense for the year 2011 was \$803,810, and the Net Pension Asset values were \$12,670,123 for the 1996 Bond Issue (refunded by the 2007 Pension Bond Issue) and \$8,382,610 for the 2005 Bond Issue.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011:

Active plan members	110
Retirees and beneficiaries currently receiving benefits	53
Terminated plan members entitled to but not yet receiving benefits	<u>8</u>
Total	<u><u>171</u></u>

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11 PENSION PLANS (Contd.)

State Administered Plans
Officers and Employees (Contd.)

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 of 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.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND (Cont'd)

Description of Aggregated Pension Fund (Cont'd)

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.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 compensation not covered by social security. Members who are covered shall contribute 6.5% 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, 2011 the contribution was \$160,453.

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>\$ (858,517)</u>
Annual pension cost:	
Annual required contribution (ARC)	160,453
Interest on the NPO	(68,681)
Adjustments to the ARC Amortization of NPO	<u>(89,396)</u>
Annual Pension Cost	2,376
Contributions Made	<u>(160,453)</u>
Increase in NPO	<u>(158,077)</u>
NPO at the end of the period	<u><u>\$(1,016,594)</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2011, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2010 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, 2011
Actuarial value of Plan assets	<u>\$ 7,266,589</u>
Actuarial accrued liability	<u>\$ 11,281,826</u>
Total unfunded actuarial liability	<u>\$ 4,015,237</u>
Annual Covered Payroll	<u>\$ 307,184</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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>
2009	52,811	100%	(877,697)
2010	42,441	100%	(858,517)
2011	160,453	100%	(1,016,594)

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, 2011

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, 2011 the contribution was \$434,219.

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>\$ (831,615)</u>
Annual pension cost:	
Annual required contribution (ARC)	434,219
Interest on the NPO	(66,529)
Adjustments to the ARC Amortization of NPO	<u>(86,595)</u>
Annual Pension Cost	281,095
Contributions Made	<u>(434,219)</u>
Increase in NPO	<u>(153,124)</u>
NPO at the end of the period	<u>\$ (984,739)</u>

Actuarial valuation date	January 1, 2011
Actuarial value of Plan assets	<u>\$ 15,393,967</u>
Actuarial accrued liability	<u>\$ 22,975,675</u>
Total unfunded actuarial liability	<u>\$ 7,581,708</u>
Annual Covered Payroll	<u>\$ 3,037,658</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2010 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>
2009	405,504	100%	(850,194)
2010	485,312	100%	(831,615)
2011	434,219	100%	(984,739)

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, 2011

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, 2011 the contribution was \$847,880.

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>\$ (847,872)</u>
Annual pension cost:	
Annual required contribution (ARC)	847,880
Interest on the NPO	(77,524)
Adjustments to the ARC Amortization of NPO	<u>(98,700)</u>
Annual Pension Cost	671,656
Contributions made	<u>(847,880)</u>
Increase in NPO	<u>(176,224)</u>
NPO at the end of the period	<u>\$ (1,024,096)</u>

Actuarial valuation date	January 1, 2011
Actuarial value of Plan assets	<u>\$ 17,198,135</u>
Actuarial accrued liability	<u>\$ 31,235,456</u>
Total unfunded actuarial liability	<u>\$ 14,037,321</u>
Annual Covered Payroll	<u>\$ 3,943,577</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based on the 2010 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>
2009	502,305	100%	(969,048)
2010	435,973	100%	(947,872)
2011	847,880	100%	(1,024,096)

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, 2011:

	<u>Fire</u>	<u>Police</u>	<u>Non-Uniform</u>	<u>Total</u>
Active Participants	43	62	-	105
Vested Former Members	-	2	-	2
Retired Participants	14	14	26	54
	<u>57</u>	<u>78</u>	<u>26</u>	<u>161</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, 2011

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:

	<u>Fire</u>	<u>Police</u>	Non-Uniform	<u>Total</u>
Estimated Net Benefit Obligation at the beginning of the period	\$ 920,848	\$ 1,591,482	\$ -	\$ 2,512,330
Annual Benefit Cost:				
Annual Required Contribution (ARC)	\$ 587,775	636,791	9,660	1,234,226
Estimated Interest on Net NBO	41,438	71,617	-	113,055
Estimated Adjustments to ARC	<u>(56,532)</u>	<u>(97,703)</u>	<u>-</u>	<u>(154,235)</u>
Annual Benefit Obligation	\$ 572,681	\$ 610,705	\$ 9,660	1,193,046
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(147,401)</u>	<u>(131,680)</u>	<u>(50,602)</u>	<u>(329,683)</u>
Estimated Net Benefit Obligation at the end of year	<u>\$ 1,346,128</u>	<u>\$ 2,070,507</u>	<u>\$ (40,942)</u>	<u>\$ 3,375,693</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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.

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.

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;

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 13 LEASE AND OPERATING AGREEMENT (Contd.)

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.

NOTE 14 CONTINGENT LIABILITIES

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.

NOTE 15 SUBSEQUENT EVENTS

The City of Easton purchased in January and February 2011 the properties known as the Perkins Restaurant and the Marquis Theatre. The properties were purchased with the intent of building an intermodal building containing a bus depot, parking, and retail facilities. The site will be developed in conjunction with the Easton Parking Authority with the assistance and financing of the City of Easton.

**REQUIRED
SUPPLEMENTARY INFORMATION**

State Administered Plans
Officers and Employees
Schedule of Funding Progress

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]
1/1/97	5,344,094	5,752,233	408,139	92.9%	3,673,747	11.11%
1/1/99	6,514,532	6,510,301	(4,231)	100.1%	3,891,161	-0.11%
1/1/01	7,291,569	7,355,904	64,335	99.1%	4,123,946	1.56%
1/1/03	8,212,390	8,090,645	(121,745)	101.5%	4,124,702	-2.95%
1/1/05	9,954,307	9,878,151	(76,156)	100.8%	4,731,205	-1.61%
1/1/07	11,527,336	11,492,295	(35,041)	100.3%	4,512,626	-0.78%
1/1/09	13,901,427	13,492,021	(409,406)	103.0%	5,211,617	-7.86%

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

Year Ended December 31	Annual Required Contribution	Actuarial Valuation Basis for Contributions	Percentage Contributed
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%
2009	304,530	2007	100%
2010	345,618	2007	100%
2011	290,656	2009	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, 2009
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%

Postretirement Benefit Plan
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]
Non-Unif	1/1/2011	\$ 7,266,589	\$ 11,281,826	\$ 4,015,237	64.41%	307184	1307.11%
Fire	1/1/2011	\$15,393,967	\$22,975,675	\$7,581,708	67.00%	\$2,546,424	297.74%
Police	1/1/2011	\$17,198,135	\$31,235,456	\$14,037,321	55.06%	\$3,454,626	406.33%
Total	1/1/2011	\$39,858,691	\$65,492,957	\$25,634,266	\$2	\$6,308,234	193.32%

Significant Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2011
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%

COMBINING SCHEDULES

CITY OF EASTON
 SCHEDULE OF CAPITAL PROJECT FUNDS
 DECEMBER 31, 2011

	TOTAL	Consolidated Capital	Revolving Capital	Tax-Exempt Project Fund	2011 Bond Fund	Revolving Loan Fund
<u>Assets</u>						
Cash & Equivalents	\$ 1,149,220.17	\$ 15,942.37	\$ 395,546.14	\$ -	\$ 737,731.66	\$ -
Due from Other Funds	1,740,963.66	-	-	1,740,963.66	-	-
Fire Pumper Lease	430,352.00	-	-	-	-	430,352.00
Total Assets	\$ 3,320,535.83	\$ 15,942.37	\$ 395,546.14	\$ 1,740,963.66	\$ 737,731.66	\$ 430,352.00
<u>Liabilities & Fund Balance</u>						
Accounts Payable	\$ 246,817.19	\$ 15,942.37	\$ 18,880.12	\$ -	\$ 211,994.70	\$ -
General Obligation Note	1,740,963.66	-	-	1,740,963.66	-	-
Due to General Fund	430,352.00	-	-	-	-	430,352.00
Fund Balance	902,402.98	-	376,666.02	-	525,736.96	-
Total Liab. & Fund Balance	\$ 3,320,535.83	\$ 15,942.37	\$ 395,546.14	\$ 1,740,963.66	\$ 737,731.66	\$ 430,352.00
<u>Revenues</u>						
Local Income	\$ 298,374.89	\$ -	\$ 298,374.89	\$ -	\$ -	\$ -
Sale of Assets	28,500.77	-	28,500.77	-	-	-
Refund Prior Year	128,912.33	-	128,912.33	-	-	-
Proceeds from Bond Issuance	1,061,017.66	-	-	-	1,061,017.66	-
Total Revenues	1,516,805.65	-	455,787.99	-	1,061,017.66	-
<u>Expenditures</u>						
General -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment	22,168.32	22,168.32	-	-	-	-
Buildings	220,587.93	220,587.93	-	-	-	-
Police	75,386.46	-	75,386.46	-	-	-
Fire	63,000.00	-	63,000.00	-	-	-
Planning	36,407.65	36,407.65	-	-	-	-
Highway-	-	-	-	-	-	-
Equipment	219,319.44	-	39,625.44	-	179,694.00	-
Roads	23,292.00	-	-	-	23,292.00	-
Sanitation	9,996.00	-	9,996.00	-	-	-
Recreation Parks	559,208.35	226,913.65	-	-	332,294.70	-
Fund Transfers	19,730.08	19,730.08	-	-	-	-
Total Expenditures	1,249,096.23	525,807.63	188,007.90	-	535,280.70	-
(Deficiency) Revenues (Under)	267,709.42	(525,807.63)	267,780.09	-	525,736.96	-
Expenditures	\$ 634,693.56	\$ 525,807.63	\$ 108,885.93	\$ -	\$ -	\$ -
Fund Balance Beginning of Year	\$ 902,402.98	\$ -	\$ 376,666.02	\$ -	\$ 525,736.96	\$ -
Fund Balance End of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2011

	TOTAL	Liquid Fuels	Federal Grants	Police Property	Restlawna	Alpha Building	Recreation	Open Space	Donations Fund	Misc. Grant	Authority CDBG
Assets											
Cash & Equivalents	\$ 757,275.61	\$ 75,103.82	\$ 18,500.51	\$ 5,115.66	\$ 31,178.80	\$ 162,477.48	\$ 106,398.73	\$ 60,474.41	\$ 15,866.69	\$ 282,159.51	\$ -
Other Assets	509,457.36	-	-	-	420,000.00	1,020.00	900.00	87,537.36	-	-	-
Other Receivables	194,294.76	-	20,066.40	-	-	9,972.56	180.00	-	-	164,075.80	-
Total Assets	\$ 1,461,027.73	\$ 75,103.82	\$ 38,566.91	\$ 5,115.66	\$ 451,178.80	\$ 173,470.04	\$ 107,478.73	\$ 148,011.77	\$ 15,866.69	\$ 446,235.31	\$ -
Liabilities & Fund Balance											
Due to Other Funds	\$ 215,554.52	\$ -	\$ 20,066.40	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,488.12	\$ -
Accounts Payable	225,325.51	36,299.45	18,200.51	-	-	23,575.71	2,579.07	-	305.33	144,365.44	-
Deferred Revenue	16,288.84	-	-	-	-	16,288.84	-	-	-	-	-
Other Liabilities	118,927.40	-	-	-	-	14,629.25	32,149.13	-	-	72,149.02	-
Fund Balance	884,931.46	38,804.37	300.00	5,115.66	451,178.80	118,976.24	72,750.53	148,011.77	15,561.36	34,232.73	-
Total Liab. & Fund Balance	\$ 1,461,027.73	\$ 75,103.82	\$ 38,566.91	\$ 5,115.66	\$ 451,178.80	\$ 173,470.04	\$ 107,478.73	\$ 148,011.77	\$ 15,866.69	\$ 446,235.31	\$ -
Revenues											
Interest Income	\$ 819.91	\$ 705.27	\$ -	\$ 20.92	\$ -	\$ -	\$ -	\$ 93.72	\$ -	\$ -	\$ -
Local Income	85,483.78	-	-	100.00	-	-	-	54,410.65	30,973.13	-	-
Local Government	1,460,604.91	-	-	-	-	-	796,546.69	-	-	664,058.22	-
Rental Income	395,740.85	-	-	-	-	395,740.85	-	-	-	-	-
Recreation Charges	153,214.03	-	-	-	-	-	153,214.03	-	-	-	-
Federal-Community Development	1,222,123.13	-	252,455.97	-	-	-	-	-	-	-	-
Other Grants	-	-	-	-	-	-	-	-	-	-	969,667.16
Bond Proceeds	3,346,406.32	-	-	-	-	-	-	-	-	3,346,406.32	-
State-Liquid Fuels	454,042.61	454,042.61	-	-	-	-	-	-	-	-	-
Total Revenues	7,118,435.54	454,747.88	252,455.97	120.92	-	395,740.85	949,760.72	54,504.37	30,973.13	4,010,464.54	969,667.16
Expenditures											
General-	\$ 434,834.61	\$ -	\$ -	\$ -	\$ -	\$ 434,834.61	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings	-	-	-	-	-	-	-	-	-	-	-
Public Safety-	-	-	-	-	-	-	-	-	-	-	-
Fire	343,392.05	-	322,304.97	21,087.08	-	-	-	-	-	-	-
Police	-	-	-	-	-	-	-	-	-	-	-
Sanitation/Recycling	-	-	-	-	-	-	-	-	-	-	-
Highways -	-	-	-	-	-	-	-	-	-	-	-
Snow	554,146.42	554,146.42	-	-	-	-	-	-	-	-	-
Street Lighting	29,040.17	29,040.17	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Recreation-	-	-	-	-	-	-	-	-	-	-	-
Trees	2,993.00	-	-	-	-	-	-	-	-	2,993.00	-
Other	2,095,809.07	-	-	-	-	-	952,158.81	40,908.39	3,200.00	1,099,541.87	-
Community Development-	3,850,295.72	-	-	-	154.39	-	-	-	-	2,856,087.77	969,667.16
Urban	132,212.88	(109,423.60)	-	-	-	-	-	-	-	132,212.88	-
Economic	-	-	-	-	-	-	-	-	-	-	-
Fund Transfers	(109,423.60)	(109,423.60)	-	-	-	-	-	-	-	-	-
Total Expenditures	7,333,300.32	473,762.99	322,304.97	21,087.08	154.39	434,834.61	952,158.81	40,908.39	27,586.40	4,090,833.52	969,667.16
Excess Revenues Over/(Under) Expenditures	(214,864.78)	(19,015.11)	(69,849.00)	(20,966.16)	(154.39)	(39,093.76)	(2,398.09)	13,595.98	3,386.73	(80,370.98)	-
Fund Balance Beginning of Year	\$ 1,099,796.24	\$ 57,819.48	\$ 70,149.00	\$ 26,081.82	\$ 451,333.19	\$ 158,070.00	\$ 75,148.62	\$ 134,415.79	\$ 12,174.63	\$ 114,603.71	\$ -
Fund Balance End of Year	\$ 884,931.46	\$ 38,804.37	\$ 300.00	\$ 5,115.66	\$ 451,178.80	\$ 118,976.24	\$ 72,750.53	\$ 148,011.77	\$ 15,561.36	\$ 34,232.73	\$ -

