

CITY OF EASTON
EASTON, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2012

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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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Easton, Pennsylvania as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. 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 not 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, would be based on the report of other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 *Government 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 from material misstatement.

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

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

Opinions

In our opinion, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison of the general and debt service funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-18 and 25-26 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 consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Easton, Pennsylvania's basic financial statements. The accompanying supplementary information, such as Capital Projects and Non-major Funds, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly presented in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013, on our consideration of the City of Easton, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matter. The purpose of that reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Easton, Pennsylvania's internal control over financial reporting and compliance.

Easton, Pennsylvania
August 27, 2013

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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, 2012, which collectively comprise the City of Easton, Pennsylvania's basic financial statements and have issued our report thereon dated August 27, 2013. 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.

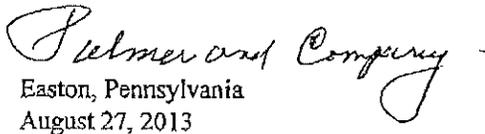
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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. 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.

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*.

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


Easton, Pennsylvania
August 27, 2013

**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, 2012. 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, 2012. 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 2012, 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:

- ***Seventh General Fund Surplus in a Row*** ó The City is pleased to report its seventh General Fund surplus in a row (fiscal year 2006 through fiscal year 2012). The City's surplus from operating activities was \$43,983 in 2012. As in the recent past, this small, positive net surplus reflects an aggressive approach to collect as much revenue as possible, fiscal discipline, and restraint in spending.
- ***Adopted Fund Balance Policy*** ó In December 2011, the City Council adopted a financial policy to achieve certain fund balances by December 2016. In 2012, the City has worked to begin meeting these minimum levels. Specifically:
 - 1) ***Minimum General Fund Balance*** ó Set óat a minimum of 10% of budgeted general fund revenuesö by 2016 or \$3.15 million using the 2013 budget for reference. As of December 31, 2012, the City had a General Fund balance of \$2,583,364, which is over 82% of the minimum goal.
 - 2) ***Minimum Health Care Fund Balance*** ó öShould maintain a balance of \$3,000,000ö by 2016. As of December 31, 2012, the City had a Health Care Fund balance of \$2,647,843, which is over 88% of the minimum goal.
 - 3) ***Minimum Liability and Casualty Fund Balance*** ó öShould maintain a balance of \$1,500,000ö by 2016. As of December 31, 2012, the City had a Liability and Casualty Fund balance of \$687,960, which is over 45% of the minimum goal, after an increase of almost \$140,000 in 2012.
- ***Significant Decrease in Long-term Debt*** ó As of December 31, 2012, the City's long-term debt is \$37,162,762 ó a reduction of more than \$2,164,196 or 5.5% 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 discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Supplementary information

Management 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*** ó 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*** ó 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 Position • 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 Position • Statement of Revenues, Expenses and Changes in Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Changes in 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, deferred inflows and outflows, 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
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 Position includes all of the City's assets and liabilities, except fiduciary funds, with the difference between the two reported as net position. 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 position 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 position is one way to measure the City's financial position. Over time, increases or decreases in the City's net position 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, earned income taxes, 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 position 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 Position:

- 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 position 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 operations. The major governmental funds are General, Debt Service, Capital & Bond, and State Grants.

The relationship between governmental activities (reported in the Statement of Net Position 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 \$59.7 million at December 31, 2012. Of this amount, \$26.6 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 2012 financial statements.

City of Easton, Pennsylvania
Management Discussion and Analysis

Table A-2: Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current & other assets	\$13,199,093	\$14,639,367	\$513,718	\$425,660	\$13,712,811	\$15,065,027
Capital assets, net	26,638,801	27,500,406	-	-	26,638,801	27,500,406
Other non-current assets	19,346,849	20,199,789	-	-	19,346,849	20,199,789
Total assets	59,184,743	62,339,562	513,718	425,660	59,698,461	62,765,222
Current and other liabilities	4,062,070	4,087,884	332,251	107,998	4,394,321	4,195,882
Long-term liabilities	40,400,898	42,324,500	135,712	123,386	40,536,610	42,447,886
Total liabilities	44,462,968	46,412,384	467,963	231,384	44,930,931	46,643,767
Net assets:						
Invested in capital assets, net of debt	9,675,829	9,226,181	-	-	9,675,829	9,226,181
Restricted net assets	3,354,251	3,334,245	-	-	3,354,251	3,334,245
Unrestricted net assets	1,691,695	3,366,752	45,755	194,276	1,737,453	3,561,028
Total net assets	14,721,775	15,927,178	45,755	194,276	14,767,530	16,121,454

During 2012, the assets of the City exceeded its liabilities (total net assets) at the close of 2012 by \$14,721,775.

City of Easton, Pennsylvania
Management Discussion and Analysis

Table A-3: Changes in Net Position

The following statement of activities represents changes in net assets for the year ended December 31, 2012. 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	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$12,961,106	\$12,965,793	\$4,410,685	\$4,231,724	\$17,371,791	\$17,197,517
Operating grants and contributions	5,398,469	6,736,304	76,526	119,764	5,474,995	6,856,068
Capital grants	4,140,125	7,807,664	-	-	4,140,125	7,807,664
General revenues:						
Taxes	15,283,446	13,930,058	-	-	15,283,446	13,930,058
Investment earnings	200,116	231,208	-	-	200,116	231,208
Misc. revenues	369,139	327,665	-	-	459,139	327,665
Total revenues	38,352,401	41,998,692	4,487,211	4,351,488	42,991,125	46,350,180
Expenses:						
General government	5,792,269	1,550,850	-	-	5,792,269	1,550,850
Public safety	15,082,504	14,609,201	-	-	15,082,204	14,609,201
Health & Welfare	71,889	61,457	-	-	71,889	61,457
DPW & Sanitation	5,615,148	5,400,139	-	-	5,615,148	5,400,139
DPW & Highways	4,870,651	3,579,147	-	-	4,960,651	3,579,147
Other Public Works	337,805	5,631,498	-	-	337,805	5,631,498
Culture & Recreation	1,176,862	3,382,813	-	-	1,255,230	3,382,813
Community Development	3,161,432	1,542,514	-	-	3,161,432	1,542,514
Debt Service	3,783,401	5,122,489	-	-	3,783,401	5,036,834
Sewer fund	-	-	4,495,821	3,825,061	4,495,821	3,825,061
Total expenses	39,891,963	40,880,108	4,495,821	3,825,061	44,387,784	44,619,514
Change in net assets before transfers	(1,539,562)	1,204,239	(8,610)	526,427	(1,548,172)	1,730,666
Transfers	209,634	374,719	(209,634)	(374,719)	-	-
Refund of Prior Year Expense	124,526	300,393	69,723	18,002	194,249	318,395
Change in net assets	(1,205,402)	1,879,351	(148,521)	169,710	(1,353,923)	2,049,061
Net assets, beginning	15,927,177	14,047,826	194,276	24,566	16,121,453	14,072,392
Net assets, ending	14,721,775	15,927,177	45,755	194,276	14,767,530	16,121,453

Total government-wide revenues of \$42.99 million came primarily from charges for services of \$17.37 million, representing 40.4% of the total. Taxes at \$15.28 million made up the second largest source at 35.5%. Operating grants and contributions of \$5.47 million, representing 12.7%, were the third largest source. Capital grants of \$4.14 million, representing 9.6%, were the fourth largest source. All other revenue sources made up the remaining 1.8%.

Total expenses for all programs in 2012 were \$44.38 million. The expenses cover a range of services, with the largest two being public safety at \$15.1 million or 34.02% and public works at \$10.9 million or 24.6%.

Capital Assets

The City's investment in capital assets at December 31, 2012, net of accumulated depreciation, was \$26.6 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, 2012 and 2011.

Table A-4: Capital assets at December 31, 2012 and 2011

	Governmental Activities	
	2012	2011
Land (Not Depreciated)	\$7,672,373	\$7,672,373
Site Improvements	179,749	187,416
Buildings & Improvements	6,661,584	6,886,526
Machinery & Equipment	3,076,260	3,228,669
Infrastructure	934,610	999,390
Water Treatment Plant	7,921,520	8,333,327
Construction In Progress	192,705	192,705
Total Capital Assets (net of depreciation)	26,638,801	27,500,406

The change in capital assets was minimal between 2011 and 2012. Most of that change is related to asset depreciation.

Long-term Debt

At December 31, 2012, the City had \$37.16 million of debt outstanding, including bonds, notes, and master lease purchase agreements. This was a net decrease of \$2,164,196 from the previous year. Table A-5 provides a summary of outstanding debt.

Table A-5: Summary of outstanding debt

	Governmental Activities	
	2012	2011
<i>Pension Debt Obligations</i>		
Bond Series of 2005	\$8,410,000	\$8,620,000
Bond Series of 2007	12,493,000	13,168,000
<i>Capital Debt Obligations</i>		
Bond Series of 2011	7,700,000	7,715,000
Note Series of 2010 (Wells Fargo Bank)	1,603,018	1,740,964
Bond Series of 1992B	-	405,964
<i>Other Debt Obligations</i>		
Master Lease Purchase Agreement	808,745	864,030
EMA Note Series of 2010 (TD Bank)	4,093,000	4,521,000
EMA Note Series of 2005 (Wells Fargo Bank)	2,055,000	2,292,000
Total Outstanding Debt	\$37,162,762	\$39,326,958

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 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, 2012 and 2011 were as follows. Table A-6 also presents changes from 2011 to 2012.

Table A-6: Revenues by source, governmental funds

	2012	2011	Changes from 2011 to 2012	Percent change
Revenues:				
Taxes	\$14,921,006	\$14,248,255	\$672,751	4.72
Licenses	356,485	564,184	(207,699)	(36.81)
Fines & Forfeits	810,731	814,874	(4,143)	(0.51)
Interest & Rents	2,068,566	2,044,416	24,150	1.18
Intergovernmental	9,538,595	14,543,968	(5,005,373)	(34.42)
Charges for Services	10,044,355	10,439,938	(395,583)	(3.79)
Miscellaneous	368,179	299,164	69,015	23.07
Total revenues	\$38,107,917	\$42,954,799	(4,846,882)	(10.93)

Governmental fund revenues totaled \$38.26 million for the year ended December 31, 2012. This is a decrease from 2011, primarily due to a decrease in grant receipts from the Commonwealth of Pennsylvania and the Federal government. Operating revenues were relatively flat year to year.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2012 and 2011 were as follows. Table A-7 also presents changes from 2011 to 2012.

Table A-7: Expenditures by function, governmental funds

	2012	2011	Changes from 2011 to 2012	Percent change
Expenses:				
General Government	\$5,613,899	\$5,876,104	(262,205)	(4.46)
Public Safety	13,826,577	14,318,742	(492,165)	(3.44)
Health & Welfare	71,889	61,457	10,432	16.97
DPW ó Sanitation	5,547,909	5,383,723	164,186	3.05
DPW ó Roads	4,723,967	3,679,740	1,044,227	28.38
DPW ó Other	343,088	5,594,368	(5,251,280)	(93.87)
Culture ó Recreation	982,951	3,414,519	(2,431,568)	(71.21)
Urban Development	3,161,432	4,500,783	(1,339,351)	(29.76)
Debt Service	5,035,797	4,957,761	78,036	1.58
Total expenses	\$39,307,809	\$47,787,197	(8,479,388)	(21.57)

Governmental fund expenditures totaled \$39.31 million for the year ended December 31, 2012, a decrease of 21.57% from 2011. The large decrease in 2012 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 position for proprietary funds at December 31, 2012 and 2011.

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

	2012		2011	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$2,583,364	-	\$2,539,381	-
Debt Service	59,310	-	309,344	-
Capital & Bond	497,770	-	902,404	-
State Grants	28,065	-	195,797	-
Other Governmental	841,532	-	884,931	-
Health	-	\$2,647,843	-	\$2,759,747
Insurance	-	687,960	-	550,811
Unemployment	-	18,448	-	23,687
Sewer	-	45,755	-	194,276
Total	\$4,010,041	\$3,354,251	\$4,831,857	\$3,528,521

The City's governmental funds reported a combined fund balance of \$4.01 million at December 31, 2012. The City's proprietary funds reported a combined fund balance of \$3.35 million at December 31, 2012.

In 2012, \$2.36 million (or 91.18%) 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 2012, 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 ends on December 31, 2014. The contract with IAFF Local 713 was renegotiated in 2012; the new contract ends on December 31, 2016. The contract

with AFSCME Local 447 was also renegotiated in 2012; the new contract ends on December 31, 2017.

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 POSITION
DECEMBER 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 3,064,448	\$ 184,111	\$ 3,248,559	\$ 4,506,257
Taxes Receivable (net)	1,959,478	-	1,959,478	-
Other Receivables	6,383,962	329,607	6,713,569	2,478,464
Prepaid Items	16,528	-	16,528	26,340
Other Assets	921,736	-	921,736	270,490
Current Portion of Net Pension Asset and Capitalized Issuance Costs	<u>852,941</u>	<u>-</u>	<u>852,941</u>	<u>-</u>
Total Current Assets	<u>13,199,093</u>	<u>513,718</u>	<u>13,712,811</u>	<u>7,281,551</u>
Non-Current Portion of Net Pension Asset, Capitalized Issuance and Lease Purchase	19,346,849	-	19,346,849	760,000
Capital Assets (net of depreciation):				
Land	7,672,373	-	7,672,373	498,075
Site Improvements	179,749	-	179,749	-
Buildings and Improvements	6,661,584	-	6,661,584	3,219,691
Machinery and Equipment	3,076,260	-	3,076,260	2,020,316
Infrastructure	934,610	-	934,610	70,805,145
Water Treatment Plant	7,921,520	-	7,921,520	20,553,665
Construction in Progress	192,705	-	192,705	-
Total Non-Current Assets	<u>45,985,650</u>	<u>-</u>	<u>45,985,650</u>	<u>97,856,892</u>
Total Assets	<u>\$ 59,184,743</u>	<u>\$ 513,718</u>	<u>\$ 59,698,461</u>	<u>\$ 105,138,443</u>
<u>Liabilities and Net Position</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 646,204	\$ 259,697	\$ 905,901	\$ 640,891
Internal Balances	(71,900)	71,900	-	-
Other Current Liabilities	289,331	-	289,331	343,405
Accrued Salaries Payable	216,924	654	217,578	-
Accrued Interest Payable	170,393	-	170,393	2,606
Contracts Payable - Completed Portion	-	-	-	150,120
Deferred Income	-	-	-	7,343
Current Portion -				
Bonds Payable	2,750,286	-	2,750,286	1,637,900
Compensated Absences	60,832	-	60,832	-
Non-Current Portion -				
Bonds Payable	34,412,476	-	34,412,476	34,842,551
Compensated Absences	1,766,870	135,712	1,902,582	-
Post-Employment Benefits	4,221,552	-	4,221,552	-
Total Liabilities	<u>44,462,968</u>	<u>467,963</u>	<u>44,930,931</u>	<u>37,624,816</u>
<u>Net Position</u>				
Invested in Capital Assets and Net Pension Assets	9,675,829	-	9,675,829	61,267,891
Restricted for Insurance Purposes	3,354,251	-	3,354,251	-
Unrestricted	1,691,695	45,755	1,737,450	6,245,736
Total Net Position	<u>14,721,775</u>	<u>45,755</u>	<u>14,767,530</u>	<u>67,513,627</u>
Total Liabilities and Net Position	<u>\$ 59,184,743</u>	<u>\$ 513,718</u>	<u>\$ 59,698,461</u>	<u>\$ 105,138,443</u>

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Revenues</u>				<u>Net (Expense)/Revenue and Changes in Net Assets</u>			<u>Component Units</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Governmental Activities</u>								
General Government	\$ (5,792,269)	\$ 1,765,210	\$ 2,253,858	\$ 156,735	\$ (1,616,466)	\$ -	\$ (1,616,466)	\$ -
Public Safety	(15,082,504)	1,927,329	162,505	-	(12,992,669)	-	(12,992,669)	-
Health and Welfare	(71,889)	46,295	13,750	-	(11,844)	-	(11,844)	-
Public Works - Sanitation	(5,615,148)	8,679,397	-	-	3,064,249	-	3,064,249	-
Public Works - Highways	(4,870,651)	145,818	607,563	3,532,683	(584,587)	-	(584,587)	-
Public Works - Other Public Works	(337,805)	264,502	21,150	-	(52,153)	-	(52,153)	-
Culture - Recreation	(1,176,862)	132,554	-	263,251	(781,058)	-	(781,058)	-
Community Development	(3,161,432)	-	2,339,643	187,456	(634,333)	-	(634,333)	-
Debt Service	(3,783,401)	-	-	-	(3,783,401)	-	(3,783,401)	-
Total Governmental Activities	<u>\$ (39,891,963)</u>	<u>\$ 12,961,106</u>	<u>\$ 5,398,469</u>	<u>\$ 4,140,125</u>	<u>\$ (17,392,263)</u>	<u>\$ -</u>	<u>\$ (17,392,263)</u>	<u>\$ -</u>
<u>Business-Type Activities</u>								
Sewage Treatment Plant Operations	\$ (4,495,821)	4,410,685	76,526	-	-	(8,610)	(8,610)	-
Total Primary Government	<u>\$ (44,387,784)</u>	<u>\$ 17,371,791</u>	<u>\$ 5,474,995</u>	<u>\$ 4,140,125</u>	<u>\$ (17,392,263)</u>	<u>\$ (8,610)</u>	<u>\$ (17,400,873)</u>	<u>\$ -</u>
<u>Component Units</u>								
Water and Parking	<u>\$ (11,250,505)</u>	<u>\$ 12,288,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,038,310</u>
<u>General Revenues:</u>								
Property and Other Taxes					\$ 15,283,446	\$ -	\$ 15,283,446	\$ -
Sale of Fixed Assets					960	-	960	-
Miscellaneous					368,179	-	368,179	-
Unrestricted Interest Earnings					200,116	-	200,116	30,660
Interfund Transfers					209,634	(209,634)	-	-
Refund of Prior Year Expenditures					124,526	69,723	194,249	-
Total General Revenues					<u>16,186,860</u>	<u>(139,911)</u>	<u>16,046,948</u>	<u>30,660</u>
Changes in Net Position					(1,205,402)	(148,521)	(1,353,924)	1,068,970
Depreciation Developer Capital					-	-	-	(932,063)
Capital Value Provided by Developers					-	-	-	154,574
Net Position - Beginning					<u>\$ 15,927,177</u>	<u>\$ 194,276</u>	<u>\$ 16,121,453</u>	<u>\$ 67,222,146</u>
Net Position - Ending					<u>\$ 14,721,775</u>	<u>\$ 45,755</u>	<u>\$ 14,767,529</u>	<u>\$ 67,513,627</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	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	\$ 453,567	\$ 59,310	\$ 497,770	\$ 104,349	\$ 599,914	\$ 1,714,910
Taxes Receivable	1,959,478	-	-	-	-	1,959,478
Other Receivables	3,933,649	-	-	2,161,052	289,261	6,383,962
Other Assets	27,941	-	371,585	-	522,210	921,736
Due from Other Funds	1,591,638	-	1,603,018	-	-	3,194,656
	<u>\$ 7,966,273</u>	<u>\$ 59,310</u>	<u>\$ 2,472,373</u>	<u>\$ 2,265,401</u>	<u>\$ 1,411,385</u>	<u>\$ 14,174,742</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Due to Other Funds	\$ 2,322,295	\$ -	\$ 371,585	\$ 2,234,194	\$ 516,978	\$ 5,445,052
Accounts Payable	297,842	-	-	3,142	11,108	312,092
Accrued Salaries and Benefits	216,924	-	-	-	-	216,924
Other Current Liabilities	20,858	-	-	-	41,767	62,625
Other Long-Term Liabilities	226,706	-	1,603,018	-	-	1,829,724
	<u>3,084,625</u>	<u>-</u>	<u>1,974,603</u>	<u>2,237,336</u>	<u>569,853</u>	<u>7,866,417</u>
<u>Deferred Inflows of Resources</u>						
Unavailable revenue - property taxes	1,202,289	-	-	-	-	1,202,289
Unavailable revenue - utility billings	1,095,995	-	-	-	-	1,095,995
	<u>2,298,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,298,284</u>
<u>Fund Balances:</u>						
Non-Spendable	27,941	-	-	-	-	27,941
Restricted	-	-	-	-	-	-
Committed	200,000	59,310	497,770	-	-	757,080
Assigned	-	-	-	28,065	841,532	869,597
Unassigned	2,355,423	-	-	-	-	2,355,423
	<u>2,583,364</u>	<u>59,310</u>	<u>497,770</u>	<u>28,065</u>	<u>841,532</u>	<u>4,010,041</u>
Total Liabilities and Fund Balances	<u>\$ 7,966,273</u>	<u>\$ 59,310</u>	<u>\$ 2,472,373</u>	<u>\$ 2,265,401</u>	<u>\$ 1,411,385</u>	<u>\$ 14,174,742</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Amounts reported for governmental activities in the statement of net position (page 18) are different because:

Total fund balances - governmental funds (page 20)		\$ 4,010,041
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 \$50,543,181 and the accumulated depreciation is \$23,904,380.		26,638,801
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.		2,298,284
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The net assets have been included in governmental activities.		3,354,251
Capitalized Bond Issuance Costs to be amortized over future periods		306,424
Net pension asset to be amortized over period of pension debt in accordance with actuarial calculations.		19,893,366
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	(37,162,762)	
Long-Term Debt included in Capital Projects	1,603,018	
Accrued Interest Expense	(170,393)	
Compensated Absences	(1,827,702)	
Post Employment Benefits	(4,221,552)	(41,779,392)
Total Net Position - Governmental Activities		<u>\$ 14,721,775</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital and Bond Funds</u>	<u>State Grants Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>						
Taxes	\$ 11,612,023	2,425,493	\$ -	\$ -	\$ 883,490	\$ 14,921,006
Licenses and Permits	356,485	-	-	-	-	356,485
Fines and Forfeits	810,731	-	-	-	-	810,731
Interest and Rents	1,652,309	2	-	-	416,255	2,068,566
Intergovernmental	3,460,661	-	156,735	4,081,993	1,839,206	9,538,595
Charges for Service	9,911,801	-	-	-	132,554	10,044,355
Miscellaneous	316,145	237	-	-	51,797	368,179
Total Revenues	<u>28,120,155</u>	<u>2,425,732</u>	<u>156,735</u>	<u>4,081,993</u>	<u>3,323,302</u>	<u>38,107,917</u>
<u>Expenditures:</u>						
General Government	5,109,128	-	57,972	-	446,799	5,613,899
Public Safety	13,465,542	-	225,515	67,835	67,984	13,826,877
Health and Welfare	71,889	-	-	-	-	71,889
Public Works - Sanitation	5,547,909	-	-	-	-	5,547,909
Public Works - Roads	1,033,723	-	297,283	2,855,546	537,415	4,723,967
Public Works - Other	343,088	-	-	-	-	343,088
Culture - Recreation	-	-	-	70,304	912,647	982,951
Urban Development	509,325	-	-	1,238,619	1,413,488	3,161,432
Debt Service	-	5,035,797	-	-	-	5,035,797
Total Expenditures	<u>26,080,604</u>	<u>5,035,797</u>	<u>580,771</u>	<u>4,232,304</u>	<u>3,378,333</u>	<u>39,307,809</u>
Excess (deficiency) of revenues over expenditures	<u>2,039,551</u>	<u>(2,610,065)</u>	<u>(424,036)</u>	<u>(150,311)</u>	<u>(55,031)</u>	<u>(1,199,892)</u>
<u>Other Financing Sources (Uses)</u>						
Transfers In	-	2,317,073	17,421	-	11,632	2,346,126
Transfers (Out)	(2,119,071)	-	-	(17,421)	-	(2,136,492)
Proceeds of General Long-Term Debt	-	42,958	-	-	-	42,958
Sale of Assets	960	-	-	-	-	960
Refund of Prior Year Expenditures	122,543	-	1,983	-	-	124,526
Total Other Financing Sources (Uses)	<u>(1,995,568)</u>	<u>2,360,031</u>	<u>19,403</u>	<u>(17,421)</u>	<u>11,632</u>	<u>378,077</u>
Net Change in Fund Balances	43,983	(250,034)	(404,633)	(167,732)	(43,399)	(821,815)
Fund Balances - Beginning	<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>
Fund Balances - Ending	<u>\$ 2,583,364</u>	<u>\$ 59,310</u>	<u>\$ 497,770</u>	<u>\$ 28,065</u>	<u>\$ 841,532</u>	<u>\$ 4,010,041</u>

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, 2012

Amounts reported for Governmental Activities in the Statement of Activities (page 19) are different because:

Net Change in Fund Balances - Governmental Funds (page 22)	\$ (821,815)
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 (\$1,140,651) is less than capital outlays (\$279,046) in the period.	(861,605)
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 Position.	2,026,252
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.	243,525
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.	(192,046)
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 Fund Balance.	(845,859)
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.	79,086
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.	20,006
Net pension assets resulting from the funding of the actuarial unfunded pension costs are amortized in the Statement of Changes in Fund Balance.	<u>(852,942)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (1,205,399)</u></u>

CITY OF EASTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes	11,477,636	\$ 11,477,636	\$ 11,612,023	134,387
Licenses and Permits	410,900	410,900	356,485	(54,415)
Fines and Forfeits	887,040	887,040	810,731	(76,309)
Interest and Rents	1,745,316	1,745,316	1,652,309	(93,007)
Intergovernmental	3,529,821	3,658,321	3,460,661	(197,660)
Charges for Service	10,028,661	10,028,660	9,911,801	(116,859)
Miscellaneous	539,858	601,545	316,145	(285,400)
Total Revenues	<u>28,619,232</u>	<u>28,809,418</u>	<u>28,120,155</u>	<u>(689,263)</u>
<u>Expenditures:</u>				
General Government	5,310,747	5,276,651	5,109,128	167,523
Public Safety	13,958,450	13,987,189	13,465,542	521,647
Health and Welfare	83,133	83,133	71,889	11,244
Public Works - Sanitation	5,501,117	5,588,874	5,547,909	40,965
Public Works - Roads	1,194,916	1,181,017	1,033,723	147,294
Public Works - Other	388,169	348,170	343,088	5,082
Urban Development	353,629	515,313	509,325	5,988
Total Expenditures	<u>26,790,161</u>	<u>26,980,347</u>	<u>26,080,604</u>	<u>899,743</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,829,071</u>	<u>1,829,071</u>	<u>2,039,551</u>	<u>210,480</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In/(Out)	(2,029,071)	(2,029,071)	(2,119,071)	(90,000)
Sale of Assets	-	-	960	960
Refund of Prior Year Expenditures	200,000	200,000	122,543	(77,457)
Total Other Financing Sources (Uses)	<u>(1,829,071)</u>	<u>(1,829,071)</u>	<u>(1,995,568)</u>	<u>(166,497)</u>
Net Change in Fund Balance	-	-	43,983	43,983
Fund Balance - Beginning	<u>\$ 2,539,381</u>	<u>\$ 2,539,381</u>	<u>\$ 2,539,381</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 2,539,381</u></u>	<u><u>\$ 2,539,381</u></u>	<u><u>\$ 2,583,364</u></u>	<u><u>\$ 43,983</u></u>

CITY OF EASTON
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes - Allocated from Levy	\$ 2,425,493	\$ 2,425,493	\$ 2,425,493	\$ -
Miscellaneous	-	-	237	237
Interest Income	-	2	2	-
Total Revenues	<u>2,425,493</u>	<u>2,425,495</u>	<u>2,425,732</u>	<u>237</u>
<u>Expenditures:</u>				
Debt Service Principal	2,026,250	2,026,250	2,026,250	-
Debt Service Interest	2,927,958	3,071,077	3,005,422	(65,655)
Fiscal Agent Fees	5,000	5,000	4,125	(875)
Total Expenditures	<u>4,959,208</u>	<u>5,102,327</u>	<u>5,035,797</u>	<u>(66,530)</u>
(Deficiency) of Revenues over Expenditures	<u>(2,533,715)</u>	<u>(2,676,832)</u>	<u>(2,610,065)</u>	<u>66,767</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from Bonds	-	-	42,958	42,958
Prior Year Undesignated	216,642	250,000	-	(250,000)
Transfers In - Fund Allocations	2,317,073	2,317,981	2,317,073	(908)
Total Other Financing Sources	<u>2,533,715</u>	<u>2,567,981</u>	<u>2,360,031</u>	<u>(207,950)</u>
Net Change in Fund Balance	-	(108,851)	(250,034)	(141,183)
Fund Balance - Beginning	<u>\$ 309,344</u>	<u>\$ 309,344</u>	<u>\$ 309,344</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 309,344</u>	<u>\$ 200,493</u>	<u>\$ 59,310</u>	<u>\$ (141,183)</u>

CITY OF EASTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activity	Governmental Activities			
	Enterprise Fund	Internal Service Funds			
	Sewage Treatment Plant Fund	Health Benefit Insurance	Liability Insurance	Unemployment Insurance	Total Internal Service Funds
<u>Assets</u>					
Cash and Cash Equivalents	\$ 184,111	\$ 617,753	729,865	1,920	\$ 1,349,538
Intergovernmental Receivable	329,607	-	-	-	-
Due from Other Funds	-	2,322,295	-	-	2,322,295
Prepaid Assets	-	-	-	16,528	16,528
Total Assets	<u>\$ 513,718</u>	<u>\$ 2,940,048</u>	<u>\$ 729,865</u>	<u>\$ 18,448</u>	<u>\$ 3,688,361</u>
<u>Liabilities</u>					
<u>Current Liabilities:</u>					
Accounts Payable	\$ 259,697	\$ 292,205	\$ 41,905	\$ -	\$ 334,110
Accrued Salaries Payable	654	-	-	-	-
Due to General Fund	71,900	-	-	-	-
Total Current Liabilities	<u>332,251</u>	<u>292,205</u>	<u>41,905</u>	<u>-</u>	<u>334,110</u>
<u>Non-Current Liabilities:</u>					
Compensated Absences	<u>135,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position</u>					
Restricted for Health Benefits	-	2,647,843	-	-	2,647,843
Restricted for Liability Insurance	-	-	687,960	18,448	706,408
Unrestricted	45,755	-	-	-	-
Total Net Position	<u>45,755</u>	<u>2,647,843</u>	<u>687,960</u>	<u>18,448</u>	<u>3,354,251</u>
Total Net Position & Liabilities	<u>\$ 513,718</u>	<u>\$ 2,940,048</u>	<u>\$ 729,865</u>	<u>\$ 18,448</u>	<u>\$ 3,688,361</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activity	Governmental Activities			
	Enterprise Fund	Internal Service Funds			
	Sewage Treatment Plant Fund	Health Benefit Insurance	Liability Insurance	Unemployment Insurance	Total Internal Service Funds
<u>Operating Revenues</u>					
Sewer Treatment Charges	\$ 4,410,685	\$ -	\$ -	\$ -	\$ -
Fund Allocations	-	2,508,364	988,750	31,314	3,528,428
Pension Aid Allocation	76,526	-	-	-	-
Participant Contributions	-	550,448	-	-	550,448
Total Operating Revenue	<u>4,487,211</u>	<u>3,058,812</u>	<u>988,750</u>	<u>31,314</u>	<u>4,078,876</u>
<u>Operating Expenses</u>					
Health Claim Payments	-	3,171,721	-	-	3,171,721
Liability/Unemployment Insurance	-	-	917,109	36,553	953,662
Sewage Treatment Plant Operations	4,495,821	-	-	-	-
Total Operating Expenses	<u>4,495,821</u>	<u>3,171,721</u>	<u>917,109</u>	<u>36,553</u>	<u>4,125,383</u>
Operating Income (Loss)	<u>(8,610)</u>	<u>(112,909)</u>	<u>71,641</u>	<u>(5,239)</u>	<u>(46,507)</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Income	-	-	14	-	14
Miscellaneous	-	1,005	65,494	-	66,499
Transfer (Out)	(209,634)	-	-	-	-
Refund of Prior Year Expenses	69,723	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(139,911)</u>	<u>1,005</u>	<u>65,508</u>	<u>-</u>	<u>66,513</u>
Change in Net Position	(148,521)	(111,904)	137,149	(5,239)	20,006
Net Position - Beginning	<u>\$ 194,276</u>	<u>\$ 2,759,747</u>	<u>\$ 550,811</u>	<u>\$ 23,687</u>	<u>\$ 2,463,573</u>
Net Position - Ending	<u>\$ 45,755</u>	<u>\$ 2,647,843</u>	<u>\$ 687,960</u>	<u>\$ 18,448</u>	<u>\$ 2,483,579</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund Sewage Treatment Fund</u>	<u>Internal Service Funds</u>
Cash Flows from Operating Activities:		
Cash Received from Governmental Entities	\$ 4,487,211	\$ -
Participant Contributions	-	550,448
Cash Received from Funds Allocations	-	3,528,428
Payments for Sewage Treatment Operations	(4,532,546)	-
Payments for Insurance and Claims	-	(4,455,678)
Net Cash Provided by (Used for) Operating Activities	<u>(45,335)</u>	<u>(376,802)</u>
Cash Flows from Non-Capital Financing Activities		
Refunds of Prior Year Expenditures	69,723	-
Other Revenues (Expenses)	(209,634)	66,499
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(139,911)</u>	<u>66,499</u>
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	-	14
Net (Decrease) in Cash and Cash Equivalents	(185,246)	(310,289)
Cash and Cash Equivalents - January 1	<u>\$ 369,357</u>	<u>\$ 1,659,827</u>
Cash and Cash Equivalents - December 31	<u>\$ 184,111</u>	<u>\$ 1,349,538</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss)	<u>\$ (8,610)</u>	<u>\$ (46,507)</u>
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease Accounts Receivables	-	(295,110)
(Increase) Decrease Intergovernmental Receivables	(273,789)	-
(Increase) Decrease Prepaid Items	485	(16,528)
Increase (Decrease) Current Liabilities	224,253	(18,657)
Increase (Decrease) Compensated Absences (Non-Current)	12,326	-
Total Adjustments	<u>(36,725)</u>	<u>(330,295)</u>
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (45,335)</u>	<u>\$ (376,802)</u>

CITY OF EASTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 815,280	\$ 116,213	\$ 2,500
Investments at Fair Value:			
U.S. Treasury	9,750,037	-	-
Corporate Bonds	6,573,345	-	-
Corporate Stocks	16,168,021	-	-
Mutual Funds	2,747,269	2,842,913	-
Accrued Interest Receivable	<u>72,291</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 36,126,243</u>	<u>\$ 2,959,126</u>	<u>\$ 2,500</u>
<u>Liabilities</u>			
Escrow Payable	\$ -	\$ -	\$ 2,500
Accounts Payable	250	-	-
Total Liabilities	<u>250</u>	<u>-</u>	<u>2,500</u>
<u>Net Position</u>			
Net Position in Trust for Pension Benefits and and Other Purposes	<u>\$ 36,125,993</u>	<u>\$ 2,959,126</u>	

CITY OF EASTON
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust</u>
<u>Additions</u>		
<u>Contributions:</u>		
Employer	\$ 1,360,252	\$ -
Plan Members	418,306	-
Other Sources	2,729	200,000
	<u>1,781,287</u>	<u>200,000</u>
Total Contributions		
	<u>1,781,287</u>	<u>200,000</u>
<u>Investment Earnings:</u>		
Interest and Dividends	824,819	101,120
Net Increase in Fair Value of Investments	1,446,664	13,465
Net Realized Gain	509,419	21,438
	<u>2,780,902</u>	<u>136,023</u>
Total Investment Earnings		
	<u>2,780,902</u>	<u>136,023</u>
Less: Investment Expense	255,251	
	<u>255,251</u>	
Net Investment Earnings	<u>2,525,651</u>	<u>136,023</u>
	<u>2,525,651</u>	<u>136,023</u>
Total Net Additions	<u>4,306,938</u>	<u>336,023</u>
	<u>4,306,938</u>	<u>336,023</u>
<u>Deductions</u>		
Benefits	4,276,795	-
Refunds of Contributions	39,017	-
Administrative Expenses	50,156	13,951
	<u>4,365,968</u>	<u>13,951</u>
Total Deductions		
	<u>4,365,968</u>	<u>13,951</u>
Changes in Net Assets	(59,030)	322,072
	<u>(59,030)</u>	<u>322,072</u>
Net Position - Beginning	\$ 36,185,023	\$ 2,637,054
	<u>\$ 36,185,023</u>	<u>\$ 2,637,054</u>
Net Position - Ending	<u>\$ 36,125,993</u>	<u>\$ 2,959,126</u>
	<u>\$ 36,125,993</u>	<u>\$ 2,959,126</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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. 61, "The Financial Reporting Entity: Omnibus," 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, 2012.

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, 2012.

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, 2012 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF NET POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2012

	Easton Suburban Water Authority	Easton Parking Authority	Total
<u>ASSETS</u>			
Current Assets	\$ 7,088,603	\$ 192,948	\$ 7,281,551
Non-current Assets	<u>97,224,665</u>	<u>632,227</u>	<u>97,856,892</u>
Total Assets	<u>\$ 104,313,268</u>	<u>\$ 825,175</u>	<u>\$ 105,138,443</u>
<u>LIABILITIES</u>			
Current Liabilities	\$ 2,639,355	\$ 142,910	\$ 2,782,265
Non-current, Long Term Debt	<u>34,219,001</u>	<u>623,550</u>	<u>34,842,551</u>
Total Liabilities	<u>36,858,356</u>	<u>766,460</u>	<u>37,624,816</u>
<u>NET POSITION</u>			
Invested in Capital Assets - Net of Related Debt	60,635,664	632,227	61,267,891
Unassigned	<u>6,819,248</u>	<u>(573,512)</u>	<u>6,245,736</u>
Total Net Position	<u>67,454,912</u>	<u>58,715</u>	<u>67,513,627</u>
Total Net Position and Liabilities	<u>\$ 104,313,268</u>	<u>\$ 825,175</u>	<u>\$ 105,138,443</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2012

	Easton Suburban <u>Water Authority</u>	Easton Parking <u>Authority</u>	<u>Total</u>
<u>Expenses</u>			
Parking related administrative and direct operating	\$ -	\$ 541,541	\$ 541,541
Water system related administrative and direct operating	8,163,846	-	8,163,846
Depreciation	<u>2,545,118</u>	<u>-</u>	<u>2,545,118</u>
Total Expenses	<u>10,708,964</u>	<u>541,541</u>	<u>11,250,505</u>
Parking Garage Revenues	-	575,070	575,070
Water System Revenues	<u>11,713,745</u>	<u>-</u>	<u>11,713,745</u>
Net Program Revenues	<u>1,004,781</u>	<u>33,529</u>	<u>1,038,310</u>
Non-Operating Revenues (Expenses)	(822,820)	(78,583)	(901,403)
Change in Net Position	181,961	(45,054)	136,907
Capital Value Provided by Developers	<u>154,574</u>	<u>-</u>	<u>154,574</u>
Beginning Net Position	<u>\$ 67,118,377</u>	<u>\$ 103,769</u>	<u>\$ 67,222,146</u>
Ending Net Position	<u>\$ 67,454,912</u>	<u>\$ 58,715</u>	<u>\$ 67,513,627</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, 2012 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	\$ <u>6,148,000</u>
<u>Liabilities</u>	
Notes Payable	<u>6,148,000</u>
Net Assets	\$ <u><u>-</u></u>

CITY OF EASTON
CONDENSED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE
GOVERNMENTAL -TYPE COMPONENT UNIT
AS OF DECEMBER 31, 2012

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	\$ <u>914,596</u>
<u>Disbursements</u>	
Note Payments:	
Interest	249,596
Principal	<u>665,000</u>
Total Disbursements	<u>914,596</u>
Change in Fund Balance	-
Cash Basis Fund Balance - Beginning	<u>-</u>
Cash Basis Fund Balance - Ending	\$ <u><u>-</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Basis of Presentation

Government-wide Financial Statements:

The statement of net position 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 position is reported as restricted when constraints placed on net position 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, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

1. GOVERNMENTAL FUNDS: (Contd.)

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

2. PROPRIETARY FUND:

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

Enterprise Funds - The City has leased all Water system facilities to the Easton Suburban Water Authority. As a result of the leasing arrangement, the 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, 2012

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 Position 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 an 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 position.
- 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 Position 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, 2012

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, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes and Other Receivables

Taxes Receivable -

Real Estate Taxes	\$ 891,024
Per Capita Taxes	191,477
Earned Income and Real Estate Transfer Taxes	877,244
Total General Fund	<u>\$ 1,959,745</u>

Other Receivables

General Fund -

Utility Billings for Sewage, Water, and Refuse	\$ 3,296,991
Due from Parking Authority	104,787
Other receivables	531,871
Total General Fund	<u>\$ 3,933,649</u>

State Grants Fund -

Due from the Commonwealth of Pennsylvania	<u>\$ 2,161,052</u>
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Other Governmental Funds

Due from the Federal Government	\$ 214,708
Due from Other Governmental Entities	64,534
Due for Recreational Activities	156
Due on rents for the Alpha Building	9,863
Total Other Governmental Funds	<u>\$ 289,261</u>

Total Other Receivables	<u>\$ 6,383,962</u>
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CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012 is as follows:

The municipal tax rate for all purposes in 2012 was 24.950 Mills.

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

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

Reconciliation of assessed 2012 Real Estate Taxes:

Taxes Levied based upon adjusted assessment	\$ 8,834,117
Add: Penalties	60,320
Less: Discounts	(121,896)
Cash Collections	<u>(8,345,807)</u>
Uncollected Balance as of December 31, 2012	<u><u>\$ 426,734</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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, equipment, and infrastructure assets, 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.

Land is not depreciated. Property, plant, equipment, and infrastructure of the City are 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, 2012

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 \$1,766,870 in the General Fund and \$135,712 in the Sewer Fund. The current portion reported by the General Fund is \$60,832. 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 Balance Classifications

Fund Balance designations have been modified to comply with GASB 54. The new designations are as follows:

NonSpendable - amounts not expected to be converted to cash, such as inventories and prepaid expenses.

Restricted - amounts that are constrained by external parties, such as creditor with debt covenants or governments with enabling legislation which would legally restrict resources.

Committed - amounts used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (i.e. City Council).

Assigned - amounts that are constrained through the intent of a finance committee or individual delegated by the government to assign amounts to be used for specific purposes. Authority to make these assignments is not required to be the government's highest level of decision making.

Unassigned - fund balance that has not been restricted, committed, or assigned and is spendable.

In the situation where both Unassigned, Assigned, Committed, or Restricted funds are available for use, it is the City's policy to consider Restricted funds to have been used first, followed by Committed, Assigned, and finally Unassigned funds.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Fund Balance Policy

City Council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the Committed, Assigned, and Unassigned components of fund balance) in the general fund. The target level is set at a minimum of 10% of budgeted general fund revenues for that budgeted year. Council intends to reach this target by December 31, 2016.

In addition, it is Council's intention to maintain a minimum fund balance in the health care fund of \$5,000,000 and in the liability and casualty insurance fund of \$1,500,000. This target is also set for December 31, 2016.

Revenues and expenditures/expenses

Program Revenue

Amounts reported as *program revenue* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenue

Proprietary fund operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewerage treatment fund is charges to customers for services. Operating expenses for proprietary funds include cost of sewage treatment, administrative expenses, and insurance payouts. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012, the bank balance of the City's deposits with financial institutions was \$5,154,848 compared to the carrying amount of \$3,216,800. The difference is primarily caused by items in-transit and outstanding checks. \$4,904,848 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.

Reconciliation to Financial Statements

Carrying Amount, Including Petty Cash	\$ 3,216,800
Deposits in Investment Pools Considered to be Cash equivalents	<u>31,759</u>
Total Cash and Equivalents per Financial Statements	<u>\$ 3,248,559</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, 2012

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>31,759</u>
Reconciliation to Financial Statements:	
Total Investments Above	\$ 31,759
Less: Deposits Considered to be Cash Equivalents, Investment Pools	<u>(31,759)</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>116,213</u>
Total Cash and Cash Equivalents	\$ <u>116,213</u>
Mutual Funds (Fair Value)	
Corporate Bonds	\$ 1,111,063
Corporate Stocks	<u>1,731,850</u>
Total Investments	<u>\$ 2,842,913</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, 2012

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, 2012:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents:		
State and Municipal Interest Checking Account	\$ 329,329	\$ 329,329
UBS Cash Reserves	363,652	363,652
UBS RET Money Fund	25,622	25,622
UBS Liquid Assets	<u>96,677</u>	<u>96,677</u>
Total cash and cash equivalents	<u>\$ 815,280</u>	<u>\$ 815,280</u>
Investments:		
Equity securities	\$ 14,302,673	\$ 16,168,021
Fixed income securities:		
U.S. Treasury Notes	7,647,000	9,750,037
Corporate Bonds	5,918,707	6,052,449
Asset-Backed Securities	500,073	520,896
Mutual Funds	<u>2,476,164</u>	<u>2,747,269</u>
Total investments	<u>\$ 30,844,617</u>	<u>\$ 35,238,672</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 Standard 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 \$824,190 compared to the carrying amount of \$815,280. The difference is primarily caused by outstanding checks. The Plan's deposits of \$574,190 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 than five percent of total investments. The Plan has no policy regarding concentration of credit risk.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 various foreign bonds and various foreign stocks. The Plan has no specific policy regarding exposure to foreign currency risk.

NOTE 4 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the government funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and utility billings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	\$ 7,672,373	\$ -	\$ 7,672,373
Capital Assets Depreciated:			
Land Improvements	1,028,774	-	1,028,774
Buildings & Improvements	11,359,586	-	11,359,586
Vehicles & Equipment	7,726,120	279,046	8,005,166
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>\$ 42,591,762</u>	<u>\$ 279,046</u>	<u>\$ 42,870,808</u>
	<u>\$ 50,264,135</u>	<u>\$ 279,046</u>	<u>\$ 50,543,181</u>
Less: Accumulated Depreciation:			
Land Improvements	\$ (841,358)	\$ (7,667)	\$ (849,025)
Buildings & Improvements	(4,473,060)	(224,942)	(4,698,002)
Vehicles & Equipment	(4,497,451)	(431,455)	(4,928,906)
Infrastructure	(694,835)	(64,780)	(759,615)
Leased Water Plant Assets	(12,257,025)	(411,807)	(12,668,832)
Total Accumulated Depreciation	<u>(22,763,729)</u>	<u>(1,140,651)</u>	<u>(23,904,380)</u>
Total Net Capital Assets	<u>\$ 27,500,406</u>	<u>\$ (861,605)</u>	<u>\$ 26,638,801</u>

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

Governmental Activities:	
General	\$ 262,350
Public Safety	399,228
Sanitation Activities	68,439
Highways & Roads	148,284
Other Public Services	68,439
Recreation	193,911
Total Depreciation Expense -	
Governmental Activities	<u>\$ 1,140,651</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable for:</u>	<u>Payable from:</u>	
Health Benefit Fund	General Fund	\$ 2,322,295
Tax-Exempt Project Fund	State Programs Fund	1,603,018
General Fund	Revolving Loan	371,585
General Fund	State Programs Fund	631,175
General Fund	Federal Programs Fund	240,267
General Fund	Miscellaneous Grant Fund	348,611
		<u>\$ 5,516,951</u>

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

Interfund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>	
General Fund	Debt Service Fund	\$ 2,029,071
Sewage Treatment Fund	Debt Service Fund	209,634
Recreation Fund	Debt Service Fund	78,368
State Grants	Revolving Capital	17,421
General Fund	Liquid Fuels	90,000
		<u>\$ 2,424,494</u>

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2012

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2012</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
Pension Debt	\$ 21,788,000	\$ -	\$ 885,000	\$ 20,903,000	\$ 844,000
Capital Debt	9,861,928	-	558,910	9,303,018	260,000
Lease Rental Debt	6,813,000	-	665,000	6,148,000	1,586,000
Capitalized Lease Debt	864,030	-	55,286	808,744	60,286
Post-Employment Benefits	3,375,693	845,859	-	4,221,552	Not Est.
Compensated Absences	<u>1,635,656</u>	<u>192,046</u>	<u>-</u>	<u>1,827,702</u>	<u>60,832</u>
Total Debt	<u>\$ 44,338,307</u>	<u>\$ 1,037,905</u>	<u>\$ 2,164,196</u>	<u>\$ 43,212,016</u>	<u>\$ 2,811,118</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2012</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
<u>Business-Type Activities:</u>					
Compensated Absences	\$ 123,386	\$ 12,326	\$ -	\$ 135,712	\$ -
 <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.					\$ 12,493,000
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.					8,410,000
 <u>Capital Debt Obligations</u>					
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 LIBOR plus 75 basis points, not to exceed 12% per annum (not included in combined amortization schedule of City debt on p. 46)					1,603,018
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.					7,700,000
 <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%.					2,055,000
Master Lease Purchase Agreement, 2007, Public Finance Com, Inc. assigned to County Farmers National Bank, 180 monthly payments, final maturity April 15, 2022.					808,745
Lease Rental Debt, Easton Municipal Authority, 2010, TD Bank, maturing through February 15, 2020 bearing interest of 3.89%.					<u>4,093,000</u>
Total					<u>\$ 37,162,762</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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>
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>\$ 35,559,744.69</u>	<u>\$ 15,842,674.76</u>	<u>\$ 51,402,419.45</u>

The General Obligation Note, Series of 2010 is not included in the above schedule because it is a drawdown note used for reimburseable grants and does not have a regular payment schedule. The Note is repaid as reimbursements are received on those grants.

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	<u>\$ 2,425,493</u>
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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	283,745
Public Safety	1,110,509
Health and Welfare	9,785
Sanitation	470,635
Highways	127,197
Other Public Works	97,841
Urban Development	14,677
Sewage Treatment Fund Transfer	<u>202,922</u>
Total Transfers	<u>\$ 2,317,311</u>
Interest Income	<u>\$ 2</u>
Total Source of Revenues	<u>\$ 4,742,806</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 \$420,564. The City did contribute this amount to the Trust during the 2012 year. As of December 31, 2012, assets of the Trust Fund amounted to \$296,808. As presented in a Separate Financial Report available at the City's business office, the Trust assets are further designated in the amount of \$15,389 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 \$1,182,175 as of December 31, 2012.

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 \$852,942, and the Net Pension Asset values were \$12,021,139 for the 1996 Bond Issue (refunded by the 2007 Pension Bond Issue) and \$8,178,652 for the 2005 Bond Issue.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012

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, 2012

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, 2012

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND (Contd.)

City of Easton Officers and Employees (Contd.)

Funding Policy - The authority under which obligations to the plan by the plan member, employer and other contributing entities are established and may be amended by PA Act 205 and Plan ordinances. Contributions can be provided by State Aid and Local Government or Employee Contributions. Active plan members are required to contribute 3.0% of compensate not covered by social security. Members who are covered shall contribute 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, 2012

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, 2012

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, 2012

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, 2012

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><u>(1,024,096)</u></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, 2012

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, 2012

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	<u>\$ 1,346,128</u>	<u>\$ 2,070,507</u>	<u>\$ (40,942)</u>	<u>\$ 3,375,693</u>
Annual Benefit Cost:				
Annual Required Contribution (ARC)	\$ 587,775	636,791	9,660	1,234,226
Estimated Interest on Net NBO	60,576	93,173	(1,842)	151,907
Estimated Adjustments to ARC	<u>(82,641)</u>	<u>(127,112)</u>	<u>2,513</u>	<u>(207,240)</u>
Annual Benefit Obligation	\$ 565,710	\$ 602,852	\$ 10,331	1,178,893
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(158,498)</u>	<u>(139,102)</u>	<u>(35,434)</u>	<u>(333,034)</u>
Estimated Net Benefit Obligation at the end of year	<u>\$ 1,753,340</u>	<u>\$ 2,534,257</u>	<u>\$ (66,045)</u>	<u>\$ 4,221,552</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012

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

Intermodal

The City continues to work towards the construction of an intermodal facility, designed to house a bus terminal with parking deck, commercial office space, and City Hall. The intermodal will be built in two phases, 1) bus terminal and parking deck and 2) office space building. The design of the first phase is complete and bids have gone out to begin site work. The office space is currently in the design phase.

Financing of the intermodal has four components, 1) \$7.2 million pre-lease payment from the Federal Transportation Administration, 2) \$4.7 million RCAP grant from the Commonwealth of Pennsylvania, 3) the sale of the Alpha Building, and 4) the issuance of approximately \$16 million in new City bonds. That bond issuance is expected to take place in late 2013.

Crayola Experience

During 2013 the Crayola Experience reopened, bringing an estimated additional 200,000 visitors to the City of Easton. This impacts the City financially via the amusement tax and parking fees, as well as other indirect affects. Revenue in these categories is expected to increase for 2013 and beyond.

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%
1/1/11	15,965,646	15,590,694	(374,952)	102.4%	5,282,779	-7.10%

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%
2012	288,585	2011	0%

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, 2011
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%

Aggregated Pension 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-Unit	1/1/2011	\$ 7,266,589	\$ 11,281,826	\$ 4,015,237	64.41%	\$ 307,184	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	60.86%	\$ 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%

OTHER SUPPLEMENTAL INFORMATION -
COMBINING SCHEDULES

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2012

	TOTAL	Liquid Fuels	Federal Grants	Police Property	Restlawn	Alpha Building	Recreation	Open Space	Donations Fund	Misc. Grant	Authority CDBG
Assets											
Cash & Equivalents	\$ 599,913.53	\$ 60,891.15	\$ 25,558.51	\$ 1,963.13	\$ 31,068.05	\$ 83,668.32	\$ 150,093.23	\$ 99,947.91	\$ 13,776.02	\$ 132,947.21	\$ -
Other Assets	522,210.41	-	-	-	420,000.00	14,629.25	-	87,581.16	-	-	-
Other Receivables	289,261.04	-	214,708.29	-	-	9,862.82	156.00	-	-	64,533.93	-
Total Assets	\$ 1,411,384.98	\$ 60,891.15	\$ 240,266.80	\$ 1,963.13	\$ 451,068.05	\$ 108,160.39	\$ 150,249.23	\$ 187,529.07	\$ 13,776.02	\$ 197,481.14	\$ -
Liabilities & Fund Balance											
Due to Other Funds	\$ 516,977.63	\$ -	\$ 240,266.80	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276,710.83	\$ -
Accounts Payable	11,108.48	1,490.22	-	-	-	5,436.56	4,181.70	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	41,766.90	-	-	-	-	14,629.25	27,137.65	-	-	-	-
Fund Balance	841,531.97	59,400.93	0.00	1,963.13	451,068.05	88,094.58	118,929.88	187,529.07	13,776.02	(79,229.69)	-
Total Liab. & Fund Balance	\$ 1,411,384.98	\$ 60,891.15	\$ 240,266.80	\$ 1,963.13	\$ 451,068.05	\$ 108,160.39	\$ 150,249.23	\$ 187,529.07	\$ 13,776.02	\$ 197,481.14	\$ -
Revenues											
Interest Income	\$ 448.71	\$ 398.48	\$ -	\$ 1.81	\$ -	\$ -	\$ -	\$ 43.80	\$ 4.62	\$ -	\$ -
Local Income	50,636.63	-	-	-	-	-	-	39,473.50	11,163.13	-	-
Local Government	998,894.02	1,160.00	-	-	-	-	883,490.07	-	-	114,243.95	-
Rental Income	415,806.49	-	-	-	-	415,806.49	-	-	-	-	-
Recreation Charges	132,554.44	-	-	-	-	-	132,554.44	-	-	-	-
Federal-Community Development	1,237,358.80	-	262,766.80	-	-	-	-	-	-	-	974,592.00
Other Grants	21,150.00	-	-	-	-	-	21,150.00	-	-	-	-
State-Liquid Fuels	466,452.65	466,452.65	-	-	-	-	-	-	-	-	-
Total Revenues	3,323,301.74	468,011.13	262,766.80	1.81	-	415,806.49	1,037,194.51	39,517.30	11,167.75	114,243.95	974,592.00
Expenditures											
General-											
Buildings	446,798.90	\$ -	\$ -	\$ -	\$ 110.75	\$ 446,688.15	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety-											
Fire	49,032.00	-	49,032.00	-	-	-	-	-	-	-	-
Police	18,952.34	-	15,798.00	3,154.34	-	-	-	-	-	-	-
Sanitation/Recycling	-	-	-	-	-	-	-	-	-	-	-
Highways -											
Snow	72,349.44	72,349.44	-	-	-	-	-	-	-	-	-
Street Lighting	465,065.13	465,065.13	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Recreation-											
Trees	-	-	-	-	-	-	-	-	-	-	-
Other	912,647.33	-	-	-	-	-	912,647.33	-	-	-	-
Community Development-											
Urban	1,409,113.26	-	193,861.80	-	-	-	-	-	12,953.09	227,706.37	974,592.00
Economic	4,375.00	-	4,375.00	-	-	-	-	-	-	-	-
Fund Transfers	(11,632.17)	(90,000.00)	-	-	-	-	78,367.83	-	-	-	-
Total Expenditures	3,366,701.23	447,414.57	263,066.80	3,154.34	110.75	446,688.15	991,015.16	-	12,953.09	227,706.37	974,592.00
Excess Revenues Over/(Under) Expenditures	(43,399.49)	20,596.56	(300.00)	(3,152.53)	(110.75)	(30,881.66)	46,179.35	39,517.30	(1,785.34)	(113,462.42)	-
Fund Balance Beginning 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	\$ -
Fund Balance End of Year	\$ 841,531.97	\$ 59,400.93	\$ -	\$ 1,963.13	\$ 451,068.05	\$ 88,094.58	\$ 118,929.88	\$ 187,529.07	\$ 13,776.02	\$ (79,229.69)	\$ -

CITY OF EASTON
SCHEDULE OF CAPITAL PROJECT FUNDS
DECEMBER 31, 2012

	TOTAL	Revolving Capital	Tax-Exempt Project Fund	2011 Bond Fund	Revolving Loan Fund
<u>Assets</u>					
Cash & Equivalents	\$ 497,769.70	\$ 217,402.54	\$ -	\$ 273,911.88	\$ 6,455.28
Due from Other Funds	1,603,018.05	-	1,603,018.05	-	-
Fire Pumper Lease	371,584.78	-	-	-	371,584.78
Total Assets	\$ 2,472,372.53	\$ 217,402.54	\$ 1,603,018.05	\$ 273,911.88	\$ 378,040.06
<u>Liabilities & Fund Balance</u>					
Accounts Payable	\$ -	\$ -	\$ -	-	\$ -
General Obligation Note	1,603,018.05	-	1,603,018.05	-	-
Due to General Fund	371,584.78	-	-	-	371,584.78
Fund Balance	497,769.70	217,402.54	-	273,911.88	6,455.28
Total Liab. & Fund Balance	\$ 2,472,372.53	\$ 217,402.54	\$ 1,603,018.05	\$ 273,911.88	\$ 378,040.06
<u>Revenues</u>					
Local Income	\$ 156,734.51	\$ 150,279.23	\$ -	\$ -	\$ 6,455.28
Sale of Assets	-	-	-	-	-
Refund Prior Year	1,982.57	1,524.44	-	458.13	-
Total Revenues	158,717.08	151,803.67	-	458.13	6,455.28
<u>Expenditures</u>					
General -					
Equipment	\$ 52,572.40	\$ 52,572.40	\$ -	\$ -	\$ -
Buildings	5,400.00	5,400.00	-	-	-
Police	95,718.83	95,718.83	-	-	-
Fire	129,796.50	129,796.50	-	-	-
Planning	-	-	-	-	-
Highway-					
Equipment	289,119.71	45,000.00	-	244,119.71	-
Roads	8,163.50	-	-	8,163.50	-
Sanitation	-	-	-	-	-
Recreation Parks	-	-	-	-	-
Fund Transfers	(17,420.58)	(17,420.58)	-	-	-
Total Expenditures	563,350.36	311,067.15	-	252,283.21	-
(Deficiency) Revenues (Under)					
Expenditures	(404,633.28)	(159,263.48)	-	(251,825.08)	6,455.28
Fund Balance Beginning of Year	\$ 902,402.98	\$ 376,666.02	\$ -	\$ 525,736.96	\$ -
Fund Balance End of Year	\$ 497,769.70	\$ 217,402.54	\$ -	\$ 273,911.88	\$ 6,455.28