

CITY OF EASTON
EASTON, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2010

PALMER AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
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EASTON, PA 18042

CITY OF EASTON
BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
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DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units disclosed in the notes to the financial statements, each major fund and the aggregate remaining fund information of the City of Easton, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Easton's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of Easton Redevelopment Authority or the Easton Housing Authority. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included of the City of Easton Redevelopment Authority and Easton Housing Authority, is based on the report of

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Easton as of December 31, 2010, and the respective changes in the financial position and cash flows, where applicable, thereof, and the budgetary comparison of the general and debt service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2011, on our consideration of the City of Easton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 13 and Schedules of Funding Progress on pages 63 and 64 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Easton, Pennsylvania
July 27, 2011

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of and for the year ended December 31, 2010, which collectively comprise the City of Easton's basic financial statements and have issued our report thereon dated July 27, 2011. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of City of Easton Redevelopment Authority and Easton Housing Authority, as described in our report on City of Easton's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting. Reference numbers 2010-1 and 2010-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Easton in a separate letter dated July 27, 2011.

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
July 27, 2011

Management's Discussion and Analysis

As Management of the City of Easton, we offer readers of the City of Easton's financial statements this narrative overview and analysis of the financial activities of the City of Easton for the year ended December 31, 2010.

Financial Highlights

- In December 2010, rating agency Standard and Poors upgraded the bond rating for the City of Easton from BBB+ to A-(stable). In the report outlining the basis for the rating change, S&P identified the following:
 - "The City's strong financial performance during the past three fiscal years"
 - "The City will maintain at least good reserve levels going forward due to its additional revenue-raising flexibility and track record of trimming expenditures as needed under the city's new management team."
 - "If the city is able to maintain stable finances and good reserve levels, there could be some upward rating movement."
- The City of Easton's surplus from operating activities (General Fund) was \$534,460. Anticipating a surplus in excess of \$500,000, City administrative personnel recommended a carry forward of \$500,000 to the Mayor and City Council from 2010 operating activities in the 2011 budget, resulting in an actual or net surplus of \$34,460. If City revenues exceed projections in 2011, the carry forward of \$500,000 will not be fully used. For the third year in a row, the net surplus is a small, positive number. It reflects an aggressive approach to collect as much revenue as possible and fiscal discipline and restraint in spending.
- At the end of the current fiscal year, unreserved, undesignated general fund balance for the General Fund was \$2,426,914. When taken net of the \$500,000 carryforward, the net surplus is \$1,926,914.
- Presented on the Government-wide statements, the assets of the City of Easton exceeded its liabilities at the close of the most recent fiscal year by \$14,047,826 (*net assets*).
- The government's total net assets decreased by \$1,387,441. The decrease in net assets is primarily associated with non-cash recognitions for employee benefits such as post-employment benefits.
- As of the close of the current fiscal year, the City of Easton's fund financial statements reported combined ending fund balances of \$4,552,032, an increase of \$43,933.
- The City of Easton's total long-term debt of \$44,400,814 for Governmental Activities recognized a net increase of \$4,842,480. Major contributors to the increase include the issuance of \$4,996,000 in Lease Rental Debt, the issuance of \$1,655,309 in Capital Debt, and the recognition of \$793,004 in post-employment benefits.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statement notes include not only the City of Easton itself (known as the *primary government*), but also legally separate component units - Easton Suburban Water Authority (2010 audit available at time of publication), Easton Redevelopment Authority (no 2010 audit available at time of publication), Easton Housing Authority (no 2010 audit available at time of publication), and Easton Parking Authority (2010 audit available at time of publication). This audit also includes information on the Easton Municipal Authority, which is strictly a financing Authority and a non-component unit. Although legally separate, each authority functions for all practical purposes as a component of the City of Easton, and therefore has been included as an integral part of the primary government.

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

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

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

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

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

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

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

The City maintains a Health Benefits Fund, Casualty / Liability Insurance Fund, Unemployment Compensation Fund, and a Workers' Compensation Fund, which receive fund transfers from the General, Recreation, and Sewage Funds for the cost of the various insurance programs. The Health Fund is also supplemented by co-share payments by from all city employee groups including non-union and union and retirees according to their collective bargaining agreements. The Workers Compensation Fund is not included in this report as it is accounted for in a separate audit report.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

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

By far the largest portion of the City of Easton's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Easton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Easton's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF EASTON'S Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$14,172,383	\$13,591,910	\$241,214	\$519,970	\$14,413,597	\$14,111,880
Capital assets	46,193,861	48,039,056	-	-	46,193,861	48,039,056
Total assets	60,366,244	61,630,966	241,214	519,970	60,607,458	62,150,936
Long-term liabilities outstanding	42,138,303	36,979,265	18,002	388,428	42,156,345	37,088,937
Other liabilities	4,180,115	9,124,764	198,646	109,672	4,378,761	9,602,166
Total liabilities	46,318,418	46,104,029	216,648	587,074	46,535,066	46,691,103
Net assets:						
Invested in capital assets, net of related debt	7,043,388	13,831,040	-	-	7,043,388	13,831,040
Restricted	2,463,573	1,813,751	-	-	2,463,573	1,813,751
Unrestricted	4,540,865	(117,854)	24,566	(67,104)	4,565,431	(184,958)
Total net assets	\$14,047,826	\$15,526,937	\$24,566	\$(67,104)	\$14,072,392	\$15,459,833

At the end of the current year, the City of Easton is able to report positive net assets in the Governmental Activities and Business-type Activities.

CITY OF EASTON'S Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$12,872,799	\$13,016,898	\$4,074,148	\$3,755,618	\$16,946,947	\$16,772,516
Operating Grants and Contributions	5,038,949	3,717,478	25,390	24,871	5,064,399	3,742,349
Capital Grants and Contributions	6,190,083	4,616,280	-	-	6,190,083	4,616,280
General Revenues:						
Property taxes, Current Act 511 Taxes, Other taxes for General and Debt Service purposes	13,573,212	14,541,121	-	-	13,573,212	14,541,121
Unrestricted Investment Earnings	77,477	147,150	-	-	77,477	147,150
Miscellaneous	250,913	185,095	-	-	250,913	185,095
Total Revenues	38,003,433	36,224,022	4,099,538	3,780,489	38,003,433	40,004,511
Expenses:						
General government	5,496,988	5,461,535	-	-	5,496,988	5,461,535
Public Safety	14,269,540	13,234,261	-	-	14,269,540	13,234,261
Health and Welfare	50,287	94,327	-	-	50,287	94,327
Public Works . Sanitation	5,400,055	5,719,655	-	-	5,400,055	5,719,655
Public Works . Highways, Roads and Streets	1,821,212	3,582,703	-	-	1,821,212	3,582,703
Public Works . Other	415,132	342,102	-	-	415,132	342,102
Culture and Recreation	2,121,506	964,743	-	-	2,121,506	964,743
Urban Development	6,221,195	2,751,140	-	-	6,221,195	2,751,140
Debt Service	4,281,942	3,565,629	-	-	4,281,942	3,565,629
Water and Sewage Operations	-	-	3,786,457	3,613,207	3,786,457	3,613,207
Total Expenses	40,077,851	35,716,365	3,786,457	3,613,207	43,864,314	39,329,572
Changes- Net assets before Misc. Items	(2,074,424)	507,657	313,081	167,282	(1,761,343)	674,939
Transfers	221,490	167,477	(221,490)	(167,477)	-	-
Refund Prior Year Exp.	373,823	360,333	79	-	373,902	360,333
Lawsuit Settlement	-	(5,000,000)	-	-	-	(5,000,000)
Changes in net assets	(1,479,111)	(3,964,533)	91,670	(195)	(1,387,441)	(3,964,728)
Net Assets - Beginning of Year	15,526,937	19,491,470	(67,104)	(66,909)	15,459,833	19,424,561
Net Assets . End of Year	\$14,047,826	\$15,526,937	\$24,566	\$(67,104)	\$14,072,392	\$15,459,833

General Fund Budgetary Highlights

2010 Revenues

- General Fund revenues collected in 2010 amounted to \$32,490,664. This amount is within \$7,355 of the revised budget \$32,498,018 or 0.022%. Even after a reduction for the issuance of the EMA Note of 2010 for \$4,900,000, this amount also represents the largest amount ever collected by the City of Easton in one year, and is a testament to our current focus on aggressive collections of past due receivables.
- Property taxes collected increased during the current year. Unlike years prior to 2009, this increase was not due to a tax millage increase. Instead, the Department of Finance has instituted an aggressive and effective campaign to encourage the payment of property taxes in the year that they are levied. In 2010, the City of Easton initiated partnerships with the major mortgage companies to accelerate the payment of real estate taxes from escrow accounts. Based on the success of these efforts in 2010, the City continues these practices in the current year.
- Other major revenue items were in line with budget amounts with the exception of Earned Income Tax. Due to the continued transition associated with a major change in the Earned Income Tax rate, the City of Easton realized a significant amount less than the amount budgeted. The City of Easton continues to work with our Earned Income Tax collector, Berkheimer, to collect data and refine our estimates.

2011 Revenues

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

2010 Expenses

Because of the City of Easton's need to carry forward an operating surplus from 2010 into 2011, the Administration aggressively reduced actual expenditures, so they would come in significantly under budget. Expenditures were below budget well in excess of \$500,000. Because revenues were collected in total right on budget, the overall surplus of \$500,000 is due in large part to this aggressive monitoring of City expenses.

2011 Expenses

Based on cost savings measures that have been implemented by the current administration, the City believes that 2011 expenditures will continue to be below budget. Like 2010, any surplus will be largely dependent on the administration's ability to monitor and curtail expenses.

Financial Analysis of the Government's Fund Financial Statements

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

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

As of the end of the current fiscal year, the City of Easton's governmental funds reported combined ending fund balances of \$4,552,032, an increase of \$43,933 in comparison with the prior year. \$2,426,914 represents the unreserved, undesignated portion of fund balance. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

The General Fund is the chief Operating Fund of the City of Easton. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$2,426,914.

The Debt Service Fund has a total fund balance of \$70,852, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service Fund was \$3,600. The Debt Service Fund is an operating fund that is replenished yearly given a year's debt service needs.

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

Capital Asset and Debt Administration

Capital Assets. The City of Easton's investment in capital assets for its governmental activities as of December 31, 2010, amounts to \$25,100,234 (net of accumulated depreciation). This investment in capital assets includes land, easements, rights of way, buildings, improvements, vehicles, equipment and infrastructure.

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

	Governmental Activities	
	2010	2009
Capital Assets Not Depreciated:		
Land, Easements and Rights of Way	4,714,104	\$4,714,104
Capital Assets Depreciated:		
Land & Improvements	195,083	56,349
Buildings & Improvements	7,111,468	7,406,121
Vehicles & Equipment	3,119,427	3,359,223
Infrastructure	1,064,170	1,127,415
Construction In Progress	192,705	-
Leased Water Plant	8,745,134	9,156,941
Total	\$25,142,271	\$25,820,153

Long-Term Debt. At the end of the current fiscal year, the City of Easton had bond, note, rental, and lease debt outstanding of \$39,955,246, backed by the full faith and credit of the government.

CITY OF EASTON'S Outstanding Debt

	Governmental Activities	
	2010	2009
Pension Debt Obligations:		
Series 2005	\$8,820,000	\$9,010,000
Series 2007	13,802,000	14,522,000
Capital Debt Obligations:		
Series 2010	1,655,309	-
Series 2004	3,690,000	3,872,000
Series 2004A	2,718,000	2,876,000
Series 1992B	838,332	1,302,815
Other:		
Master Lease Purchase Agreement	914,605	942,951
EMA Note 2005 . Wachovia Bank	2,521,000	2,587,000
EMA Note 2010 . TD Bank	4,996,000	-
Total	\$39,955,246	\$35,112,766

Economic Factors

Unfortunately, the slowdown in the economy in the Lehigh Valley and nationally has had a negative impact on the City's revenue base. In particular, the following situations need to be considered as the City of Easton looks forward to 2012 and beyond:

- Suburban growth (in particular new building) has slowed, which impacts the amount of tapping fees associated with our agreement with the Easton Suburban Water Authority. Because this revenue source is now used for capital projects and large purchases only, this will have an impact on the City's ability to fund large purchases. Of note, the City has received its first payment associated with the completion of a new St Luke's Hospital facility. This payment, and others that will follow, will provide much needed revenue to this capital fund.
- Some large urban construction projects have not been completed as originally planned; others have been slower to develop, but, on a positive note, these important projects

continue. As a result, the real estate tax base has not grown as it would have if these projects were completed in a timely fashion.

- With a decline in the housing market, the City of Easton has experience a number of assessment reductions through the appeals process. This trend has further eroded our real estate tax base, but it should be noted that the reassessment trend has slowed as housing prices have begun to stabilize.
- The number and size of real estate transfer within the City of Easton has declined. As a result, the City of Easton modified its budget projections appropriately.

Requests for Information

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

CITY OF EASTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	<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	\$ 4,800,419	\$ 185,396	\$ 4,985,815	\$ 4,135,882
Taxes Receivable (net)	2,064,531	-	2,064,531	-
Other Receivables	6,050,144	55,818	6,105,962	2,247,899
Prepaid Items	32,515	-	32,515	60,832
Other Assets	420,000	-	420,000	136,775
Current Portion of Net Pension Asset and Capitalized Issuance Costs	<u>804,774</u>	<u>-</u>	<u>804,774</u>	<u>-</u>
Total Current Assets	<u>14,172,383</u>	<u>241,214</u>	<u>14,413,597</u>	<u>6,581,388</u>
Non-Current Portion of Net Pension Asset, Capitalized Issuance and Lease Purchase	21,051,770	-	21,051,770	840,000
Capital Assets (net of depreciation):				
Land	4,714,104	-	4,714,104	498,075
Site Improvements	195,083	-	195,083	-
Buildings and Improvements	7,111,468	-	7,111,468	7,693,999
Machinery and Equipment	3,119,427	-	3,119,427	1,887,330
Infrastructure	1,064,170	-	1,064,170	59,629,082
Water Treatment Plant	8,745,134	-	8,745,134	21,337,027
Construction in Progress	<u>192,705</u>	<u>-</u>	<u>192,705</u>	<u>588,491</u>
Total Non-Current Assets	<u>46,193,861</u>	<u>-</u>	<u>46,193,861</u>	<u>92,474,004</u>
Total Assets	<u>\$ 60,366,244</u>	<u>\$ 241,214</u>	<u>\$ 60,607,458</u>	<u>\$ 99,055,392</u>
<u>Liabilities and Net Assets</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 1,039,179	\$ 72,255	\$ 1,111,434	\$ 116,222
Other Current Liabilities	491,403	8,891	500,294	171,661
Accrued Salaries Payable	126,749	13,364	140,113	81,795
Accrued Interest Payable	260,273	-	260,273	61,153
Contracts Payable - Completed Portion	-	-	-	536,889
Deferred Income	-	-	-	7,419
Due to City of Easton	-	-	-	579,022
Current Portion -				
Bonds Payable	2,212,943	-	2,212,943	1,394,034
Compensated Absences	49,568	104,136	153,704	-
Non-Current Portion -				
Bonds Payable	37,742,303	-	37,742,303	29,347,238
Compensated Absences	1,883,670	18,002	1,901,672	-
Post-Employment Benefits	<u>2,512,330</u>	<u>-</u>	<u>2,512,330</u>	<u>-</u>
Total Liabilities	<u>46,318,418</u>	<u>216,648</u>	<u>46,535,066</u>	<u>32,295,433</u>
<u>Net Assets</u>				
Invested in Capital Assets and Net Pension Assets	7,043,388	-	7,043,388	61,007,691
Restricted for Insurance Purposes	2,463,573	-	2,463,573	-
Unrestricted	<u>4,540,865</u>	<u>24,566</u>	<u>4,565,431</u>	<u>5,752,268</u>
Total Net Assets	<u>14,047,826</u>	<u>24,566</u>	<u>14,072,392</u>	<u>66,759,959</u>
Total Liabilities and Net Assets	<u>\$ 60,366,244</u>	<u>\$ 241,214</u>	<u>\$ 60,607,458</u>	<u>\$ 99,055,392</u>

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

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Program Revenues</u>				<u>Net Revenue (Expense) 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	\$ (5,496,988)	\$ 1,565,957	\$ 1,436,762	\$ -	\$ (2,494,269)	\$ -	\$ (2,494,269)	\$ -
Public Safety	(14,269,540)	1,966,003	214,452	299,414	(11,789,671)	-	(11,789,671)	-
Health and Welfare	(50,287)	42,305	14,000	-	6,018	-	6,018	-
Public Works - Sanitation	(5,400,055)	8,803,420	414,606	119,100	3,937,071	-	3,937,071	-
Public Works - Highways	(1,821,212)	164,520	466,271	-	(1,190,421)	-	(1,190,421)	-
Public Works - Other Public Works	(415,132)	216,673	411,840	-	213,381	-	213,381	-
Culture - Recreation	(2,121,506)	113,920	-	109,650	(1,897,936)	-	(1,897,936)	-
Community Development	(6,221,195)	-	2,081,018	5,661,919	1,521,742	-	1,521,742	-
Debt Service	(4,281,942)	-	-	-	(4,281,942)	-	(4,281,942)	-
Total Governmental Activities	<u>\$ (40,077,857)</u>	<u>\$ 12,872,799</u>	<u>\$ 5,038,949</u>	<u>\$ 6,190,083</u>	<u>\$ (15,976,026)</u>	<u>\$ -</u>	<u>\$ (15,976,026)</u>	<u>\$ -</u>
<u>Business-Type Activities</u>								
Sewage Treatment Plant Operations	(3,786,457)	4,074,148	25,390	-	-	313,081	313,081	-
Total Primary Government	<u>\$ (43,864,314)</u>	<u>\$ 16,946,947</u>	<u>\$ 5,064,339</u>	<u>\$ 6,190,083</u>	<u>\$ (15,976,026)</u>	<u>\$ 313,081</u>	<u>\$ (15,662,945)</u>	<u>\$ -</u>
<u>Component Units</u>								
Water and Parking	<u>\$ (11,260,065)</u>	<u>\$ 11,136,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (123,517)</u>
<u>General Revenues:</u>								
Property and Other Taxes					\$ 13,573,212	\$ -	\$ 13,573,212	\$ -
Sale of Fixed Assets					33,089	-	33,089	-
Miscellaneous					217,824	-	217,824	-
Unrestricted Interest Earnings					77,477	-	77,477	59,192
Internal Transfers					221,490	(221,490)	-	-
Refund of Prior Year Expenditures					373,823	79	373,902	-
Tapping Fees					-	-	-	729,178
Total General Revenues					<u>14,496,915</u>	<u>(221,411)</u>	<u>14,275,504</u>	<u>788,370</u>
Changes in Net Assets					(1,479,111)	91,670	(1,387,441)	664,853
Depreciation Developer Capital					-	-	-	(486,635)
Capital Value Provided by Developers					-	-	-	1,119,704
Net Assets - Beginning of Year					<u>15,526,937</u>	<u>(67,104)</u>	<u>15,459,833</u>	<u>65,462,037</u>
Net Assets - End of Year					<u>\$ 14,047,826</u>	<u>\$ 24,566</u>	<u>\$ 14,072,392</u>	<u>\$ 66,759,959</u>

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

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Debt Service Fund	Capital and Bond Funds	State Grants Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and Cash Equivalents	\$ 1,748,629	\$ 94,166	\$ 682,742	589,921	\$ 948,543	\$ 4,064,001
Taxes Receivable (net)	2,064,531	-	-	-	-	2,064,531
Other Receivables	3,718,001	-	14,562	1,622,241	645,497	6,000,301
Other Assets	16,565	-	-	-	420,000	436,565
Due from Other Funds	935,070	-	1,606,797	-	-	2,541,867
	<u>\$ 8,482,796</u>	<u>\$ 94,166</u>	<u>\$ 2,304,101</u>	<u>\$ 2,212,162</u>	<u>\$ 2,014,040</u>	<u>\$ 15,107,265</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Due to Other Funds	\$ 1,993,962	\$ -	\$ -	\$ 1,783,979	\$ 757,888	\$ 4,535,829
Accounts Payable	534,766	2,125	14,098	93,568	62,021	706,578
Accrued Salaries and Benefits	126,749	-	-	-	-	126,749
Other Current Liabilities	369,422	21,189	-	14,839	85,953	491,403
Other Long-Term Liabilities	-	-	1,655,309	-	-	1,655,309
Deferred Revenues	3,030,983	-	-	-	8,381	3,039,364
	<u>6,055,882</u>	<u>23,314</u>	<u>1,669,407</u>	<u>1,892,386</u>	<u>914,244</u>	<u>10,555,232</u>
<u>Fund Balances:</u>						
Unreserved - Designated:						
Capital Projects	-	-	634,694	-	-	634,694
Special Revenue	-	-	-	319,776	1,099,796	1,419,572
Unreserved - Undesignated	2,426,914	70,852	-	-	-	2,497,766
	<u>2,426,914</u>	<u>70,852</u>	<u>634,694</u>	<u>319,776</u>	<u>1,099,796</u>	<u>4,552,032</u>
Total Fund Balances	<u>2,426,914</u>	<u>70,852</u>	<u>634,694</u>	<u>319,776</u>	<u>1,099,796</u>	<u>4,552,032</u>
Total Liabilities and Fund Balances	<u>\$ 8,482,796</u>	<u>\$ 94,166</u>	<u>\$ 2,304,101</u>	<u>\$ 2,212,162</u>	<u>\$ 2,014,039</u>	<u>\$ 15,107,264</u>

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

CITY OF EASTON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS ENTITY-WIDE
DECEMBER 31, 2010

Total Fund Balances - Governmental Funds \$ 4,552,032

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

Capital assets used in governmental activities are not financial resources and therefore are
not reported as assets in governmental funds. The cost of the assets is \$46,761,554 and the
accumulated depreciation is \$21,619,463. 25,142,091

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. 3,039,364

Internal Service Funds are used to charge the costs of certain activities, such as insurance.
The net assets have been included in governmental activities. 2,463,573

Capitalized Bond Issuance Costs to be amortized over future periods 362,359

Net pension asset to be amortized over period of pension debt in accordance with actuarial
calculations. 21,494,185

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

Bonds Payable	(39,955,246)	
Long-Term Debt included in Capital Projects	1,655,309	
Accrued Interest Expense	(260,273)	
Compensated Absences	(1,933,238)	
Post Employment Benefits	(2,512,330)	(43,005,778)

Total Net Assets - Governmental Activities \$ 14,047,826

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<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>
Revenues:						
Taxes	\$ 11,487,469	\$ 2,254,856	\$ -	\$ -	\$ 833,500	\$ 14,575,825
Licenses and Permits	357,983	-	-	-	-	357,983
Fines and Forfeits	835,693	-	-	-	-	835,693
Interest and Rents	1,472,065	9	-	-	330,347	1,802,421
Intergovernmental	2,820,038	-	119,100	5,653,692	2,627,821	11,220,651
Charges for Service	10,020,259	-	-	-	113,920	10,134,179
Miscellaneous	148,109	-	-	-	69,715	217,824
Total Revenues	<u>27,141,616</u>	<u>2,254,865</u>	<u>119,100</u>	<u>5,653,692</u>	<u>3,975,303</u>	<u>39,144,576</u>
Expenditures:						
General Government	9,862,821	-	94,028	-	415,644	10,372,494
Public Safety	12,877,039	-	297,161	21,508	483,133	13,678,841
Health and Welfare	50,287	-	-	-	-	50,287
Public Works - Sanitation	5,350,048	-	2,142	20,000	-	5,372,190
Public Works - Roads	944,172	-	66,129	205,638	555,913	1,771,852
Public Works - Other	334,236	-	-	14,042	-	348,278
Culture - Recreation	-	-	48,169	1,189,218	875,820	2,113,207
Urban Development	312,078	-	-	4,162,933	1,746,184	6,221,195
Debt Service	-	4,716,586	-	-	-	4,716,586
Total Expenditures	<u>29,730,681</u>	<u>4,716,586</u>	<u>507,629</u>	<u>5,613,339</u>	<u>4,076,694</u>	<u>44,644,929</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,589,065)</u>	<u>(2,461,721)</u>	<u>(388,529)</u>	<u>40,353</u>	<u>(101,391)</u>	<u>(5,500,353)</u>
Other Financing Sources (Uses)						
Transfers In	-	2,458,121	-	142,794	137,550	2,738,465
Transfers Out	(2,164,181)	-	(352,794)	-	-	(2,516,975)
Proceeds of General Long-Term Debt	4,915,884	-	-	-	-	4,915,884
Sale of Assets	-	-	33,089	-	-	33,089
Refund of Prior Year Expenditures	371,822	-	2,001	-	-	373,823
Total Other Financing Sources (Uses)	<u>3,123,525</u>	<u>2,458,121</u>	<u>(317,704)</u>	<u>142,794</u>	<u>137,550</u>	<u>5,544,285</u>
Net Change in Fund Balances	534,460	(3,600)	(706,233)	183,147	36,159	43,933
Fund Balances - Beginning of Year	<u>1,892,454</u>	<u>74,452</u>	<u>1,340,927</u>	<u>136,629</u>	<u>1,063,637</u>	<u>4,508,099</u>
Fund Balances - End of Year	<u>\$ 2,426,914</u>	<u>\$ 70,852</u>	<u>\$ 634,694</u>	<u>\$ 319,776</u>	<u>\$ 1,099,796</u>	<u>\$ 4,552,033</u>

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

CITY OF EASTON
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Total Net Change in Fund Balances - Governmental Funds \$ 43,933

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses. This is the amount by which depreciation expense (\$1,112,800) is greater than capital outlays (\$434,739) in the period. (678,061)

Repayment of current bond principal net refunded debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,712,829

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. (1,174,232)

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. 37,787

In the statement of activities, certain operating expenses (other post-employment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). The post-employment benefits recognized as unfunded for the current year are expensed in the Statement of Changes in Net Assets. (793,004)

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. (11,075)

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. 649,822

Net pension assets resulting from the funding of the actuarial unfunded pension costs are amortized in the Statement of Changes in Net Assets. (1,267,110)

Change in Net Assets of Governmental Activities \$ (1,479,110)

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes	\$ 12,012,180	\$ 11,800,510	\$ 11,487,469	(313,041)
Licenses and Permits	347,500	351,000	357,983	6,983
Fines and Forfeits	754,000	754,000	835,693	81,693
Interest and Rents	1,464,580	1,479,581	1,472,065	(7,516)
Intergovernmental	2,809,540	2,976,736	2,820,038	(156,698)
Charges for Service	9,841,971	9,851,971	10,020,259	168,288
Miscellaneous	160,720	154,220	148,109	(6,111)
Total Revenues	<u>27,390,491</u>	<u>27,368,018</u>	<u>27,141,616</u>	<u>(226,402)</u>
<u>Expenditures:</u>				
General Government	4,969,851	10,005,767	9,862,821	142,946
Public Safety	13,236,100	13,131,518	12,877,039	254,479
Health and Welfare	61,329	58,436	50,287	8,149
Public Works - Sanitation	5,656,520	5,499,995	5,350,048	149,947
Public Works - Roads	961,338	976,028	944,172	31,856
Public Works - Other	234,834	342,549	334,236	8,313
Urban Development	316,337	319,543	312,078	7,465
Total Expenditures	<u>25,436,309</u>	<u>30,333,836</u>	<u>29,730,681</u>	<u>603,155</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,954,182</u>	<u>(2,965,818)</u>	<u>(2,589,065)</u>	<u>376,753</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(2,164,182)	(2,164,182)	(2,164,181)	1
Proceeds of General Long-Term Debt	-	4,920,000	4,915,884	(4,116)
Refund of Prior Year Expenditures	210,000	210,000	371,822	161,822
Total Other Financing Sources (Uses)	<u>(1,954,182)</u>	<u>2,965,818</u>	<u>3,123,525</u>	<u>157,707</u>
Net Change in Fund Balance	-	-	534,460	534,460
Fund Balance - Beginning of Year	<u>1,892,454</u>	<u>1,892,454</u>	<u>1,892,454</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,892,454</u>	<u>\$ 1,892,454</u>	<u>\$ 2,426,914</u>	<u>\$ 534,460</u>

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

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual (Budget Basis)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes - Allocated from Levy	2,254,856	2,254,856	2,254,856	-
Interest Income	-	-	9	9
Total Revenues	<u>2,254,856</u>	<u>2,254,856</u>	<u>2,254,865</u>	<u>9</u>
<u>Expenditures:</u>				
Debt Service Principal	1,824,981	1,824,981	1,824,981	-
Debt Service Interest	2,884,871	2,884,871	2,888,480	3,609
Fiscal Agent Fees	3,125	3,125	3,125	-
Total Expenditures	<u>4,712,977</u>	<u>4,712,977</u>	<u>4,716,586</u>	<u>3,609</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,458,121)</u>	<u>(2,458,121)</u>	<u>(2,461,721)</u>	<u>(3,600)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In - Fund Allocations	2,458,121	2,458,121	2,458,121	-
Total Other Financing Sources	<u>2,458,121</u>	<u>2,458,121</u>	<u>2,458,121</u>	<u>-</u>
Net Change in Fund Balance	-	-	(3,600)	(3,600)
Fund Balance - Beginning of Year	<u>74,452</u>	<u>74,452</u>	<u>74,452</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 74,452</u>	<u>\$ 74,452</u>	<u>\$ 70,852</u>	<u>\$ (3,600)</u>

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

CITY OF EASTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>		
	<u>Sewage Treatment Plant Fund</u>	<u>Health Benefit Fund</u>	<u>Liability/ Unemployment Insurance Funds</u>	<u>Total Internal Service Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 185,396	\$ 549,487	\$ 186,931	\$ 736,418
Accounts Receivable	-	34,970	14,874	49,844
Intergovernmental Receivable	55,818			
Due from Other Funds	-	1,993,962	-	1,993,962
Prepaid Assets	-	-	15,950	15,950
 Total Assets	 <u>\$ 241,214</u>	 <u>\$ 2,578,419</u>	 <u>\$ 217,755</u>	 <u>\$ 2,796,174</u>
 <u>Liabilities</u>				
<u>Current:</u>				
Accounts Payable	\$ 72,255	\$ 330,561	\$ 2,040	\$ 332,601
Accrued Salaries Payable	13,364	-	-	-
Compensated Absences	104,136	-	-	-
Other Current Liabilities	8,891	-	-	-
 Total Current Liabilities	 <u>198,646</u>	 <u>330,561</u>	 <u>2,040</u>	 <u>332,601</u>
 <u>Non-Current:</u>				
Compensated Absences	18,002	-	-	-
 <u>Net Assets</u>				
Restricted for Health Benefits	-	2,247,858	-	2,247,858
Restricted for Liability Insurance	-	-	215,715	215,715
Unrestricted	24,566	-	-	-
 Total Net Assets	 <u>24,566</u>	 <u>2,247,858</u>	 <u>215,715</u>	 <u>2,463,573</u>
 Total Net Assets & Liabilities	 <u>\$ 241,214</u>	 <u>\$ 2,578,419</u>	 <u>\$ 217,755</u>	 <u>\$ 2,796,174</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Internal Service Funds			Total Internal Service Funds
	Sewage Treatment Plant Fund	Health Benefit Fund	Liability/ Unemployment Insurance Funds	
<u>Operating Revenues</u>				
Sewer Treatment Charges	\$ 4,074,148	\$ -	\$ -	\$ -
Fund Allocations	-	2,950,298	1,016,045	3,966,343
Pension Aid Allocation	25,390	-	-	-
Participant Contributions	-	1,009,454	-	1,009,454
Total Operating Revenue	<u>4,099,538</u>	<u>3,959,752</u>	<u>1,016,045</u>	<u>4,975,797</u>
<u>Operating Expenses</u>				
Health Claim Payments	-	3,269,584	-	3,269,584
Liability/Unemployment Insurance	-	-	1,105,785	1,105,785
Sewage Treatment Plant Operations	3,786,457	-	-	-
Total Operating Expenses	<u>3,786,457</u>	<u>3,269,584</u>	<u>1,105,785</u>	<u>4,375,370</u>
Operating Income/(Loss)	<u>313,081</u>	<u>690,168</u>	<u>(89,740)</u>	<u>600,427</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	-	-	44	44
Miscellaneous	-	-	49,351	49,351
Transfers Out	(221,490)	-	-	-
Refund of Prior Year Expenses	79	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(221,411)</u>	<u>-</u>	<u>49,395</u>	<u>49,395</u>
Change in Net Assets	91,670	690,168	(40,345)	649,822
Net Assets - Beginning of Year	<u>(67,104)</u>	<u>\$ 1,557,691</u>	<u>256,060</u>	<u>1,813,751</u>
Net Assets - End of Year	<u>\$ 24,566</u>	<u>\$ 2,247,858</u>	<u>\$ 215,715</u>	<u>\$ 2,463,573</u>

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

CITY OF EASTON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Enterprise Fund Sewage Treatment Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received from Governmental Entities	\$ 4,099,538	\$ -
Participant Contributions	-	1,009,454
Cash Received from Funds Allocations	-	3,966,343
Payments for Sewage Treatment Operations	(4,212,701)	-
Payments for Insurance and Claims	-	(4,407,106)
	(113,163)	568,691
Net Cash Provided by Operating Activities		
Cash Flows from Non-Capital Financing Activities		
Other Revenues	79	49,351
Transfers to Other Funds	(221,490)	-
Temporary Advance to Other Funds	-	(635,226)
	(221,411)	(585,875)
Net Cash Provided (Used) by Non-Capital Financing Activities		
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	-	44
	-	44
Net Increase (Decrease) in Cash	(334,574)	(17,140)
Cash and Cash Equivalents - Beginning of the Year	519,970	753,558
Cash and Cash Equivalents - End of the Year	\$ 185,396	\$ 736,418
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 313,081	\$ 600,427
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease Intergovernmental Receivables	(55,818)	(49,844)
(Increase) Decrease Prepaid Items	-	145,971
Increase (Decrease) Current Liabilities	(278,756)	(127,863)
Increase (Decrease) Compensated Absences (Non-Current)	(91,670)	-
Total Adjustments	(426,244)	(31,736)
Net Cash Provided/(Used) by Operating Activities	\$ (113,163)	\$ 568,691

CITY OF EASTON
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

<u>Assets</u>	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>Total Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 1,601,489	\$ 1,143,039	\$ 27,878	\$ 2,772,406
Accrued Interest Receivable	71,593	-	-	71,593
Investments at Fair Value:				
U.S. Treasury	11,783,904	-	-	11,783,904
Corporate Bonds	4,076,962	648,674	-	4,725,636
Corporate Stocks	17,965,335	997,938	-	18,963,273
Mutual Funds	773,685	-	-	773,685
Total Investments	<u>34,599,886</u>	<u>1,646,612</u>	<u>-</u>	<u>36,246,498</u>
 Total Assets	 <u>\$ 36,272,968</u>	 <u>\$ 2,789,651</u>	 <u>\$ 27,878</u>	 <u>\$ 39,090,497</u>
 <u>Liabilities</u>				
Escrow Payable	\$ -	\$ -	\$ 27,878	\$ 27,878
Accounts Payable	37,795	-	-	37,795
 Total Liabilities	 <u>37,795</u>	 <u>-</u>	 <u>27,878</u>	 <u>65,673</u>
 <u>Net Assets</u>				
Held in Trust for Pension Benefits and and Trust Purposes	<u>\$ 36,235,173</u>	<u>\$ 2,789,651</u>	<u>\$ -</u>	<u>\$ 39,024,824</u>

CITY OF EASTON
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust</u>	<u>Total Fiduciary Funds</u>
<u>Additions</u>			
<u>Contributions:</u>			
Employer	\$ 963,726.00	\$ -	\$ 963,726.00
Plan Members	381,779	-	381,779
Other Sources	5,238	1,500,000	1,505,238
Total Contributions	<u>1,350,743</u>	<u>1,500,000</u>	<u>2,850,743</u>
<u>Investment Earnings:</u>			
Interest and Dividends	683,475	52,462	735,937
Net Increase in Fair Value of Investments	4,545,819	121,584	4,667,403
Net Realized (Losses)	<u>(4,606,525)</u>	<u>-</u>	<u>(4,606,525)</u>
Total Investment Earnings	<u>622,769</u>	<u>174,046</u>	<u>796,815</u>
Less: Investment Expense	<u>-</u>	<u>6,667</u>	<u>6,667</u>
Net Investment Earnings	<u>622,769</u>	<u>167,379</u>	<u>790,148</u>
Total Net Increases	<u>1,973,512</u>	<u>1,667,379</u>	<u>3,640,891</u>
<u>Deductions</u>			
Benefits	4,207,475	-	4,207,475
Refunds of Contributions	21,090	-	21,090
Administrative Expenses	304,454	-	304,454
Payments in Accordance with Trust Agreements	<u>-</u>	<u>70,534</u>	<u>70,534</u>
Total Deductions	<u>4,533,019</u>	<u>70,534</u>	<u>4,603,553</u>
Changes in Net Assets	(2,559,507)	1,596,845	(962,662)
Net Assets - Beginning of Year	<u>38,794,680</u>	<u>1,192,806</u>	<u>39,987,486</u>
Net Assets - End of Year	<u>\$ 36,235,173</u>	<u>\$ 2,789,651</u>	<u>\$ 39,024,824</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

BUSINESS-TYPE ACTIVITIES

Easton Suburban Water Authority - The Authority is responsible for providing water service to surrounding municipalities and contributing to the funding for the construction of the water treatment plant. All of the voting members of the Authority are appointed by the City of Easton. Authority assets leased under the January 1, 2007 Operating Agreement would be transferable to the City upon termination of the Agreement on January 1, 2032. The condensed financial information presented utilizes the "Government-Wide" Financial Statement presentation as it pertains to a single proprietary operation entity for the year ended December 31, 2010.

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, 2010.

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, 2010 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF NET ASSETS
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2010

	Easton Suburban Water Authority	Easton Parking Authority	Total
<u>ASSETS</u>			
Current Assets	\$ 6,502,593	\$ 78,795	\$ 6,581,388
Non-current Assets	<u>91,109,976</u>	<u>1,364,028</u>	<u>92,474,004</u>
Total Assets	<u>\$ 97,612,569</u>	<u>\$ 1,442,823</u>	<u>\$ 99,055,392</u>
<u>LIABILITIES</u>			
Current Liabilities	\$ 2,333,445	\$ 35,728	\$ 2,369,173
Non-current, Long Term Debt	<u>28,669,188</u>	<u>1,257,072</u>	<u>29,926,260</u>
Total Liabilities	<u>31,002,633</u>	<u>1,292,800</u>	<u>32,295,433</u>
<u>NET ASSETS</u>			
Invested in Capital Assets - Net of Related Debt	60,232,154	775,537	61,007,691
Unrestricted - Designated	-	588,491	588,491
Undesignated	<u>6,377,782</u>	<u>(1,214,005)</u>	<u>5,163,777</u>
Total Net Assets	<u>66,609,936</u>	<u>150,023</u>	<u>66,759,959</u>
Total Net Assets and Liabilities	<u>\$ 97,612,569</u>	<u>\$ 1,442,823</u>	<u>\$ 99,055,392</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2010

	<u>Easton Suburban Water Authority</u>	<u>Easton Parking Authority</u>	<u>Total</u>
<u>Expenses</u>			
Parking related administrative and direct operating	\$ -	\$ 435,283	\$ 435,283
Water system related administrative and direct operating	7,769,607	-	7,769,607
Depreciation	<u>2,212,704</u>	<u>-</u>	<u>2,212,704</u>
Total Expenses	<u>9,982,311</u>	<u>435,283</u>	<u>10,417,594</u>
Parking Garage Revenues	-	581,377	581,377
Water System Revenues	<u>10,555,171</u>	<u>-</u>	<u>10,555,171</u>
Net Program Revenues	<u>572,860</u>	<u>146,094</u>	<u>718,954</u>
Non-Operating Revenues (Expenses)	(439,723)	(101,013)	(540,736)
Change in Net Assets	133,137	45,081	178,218
Capital Value Provided by Developers	<u>1,119,704</u>	<u>-</u>	<u>1,119,704</u>
Beginning Net Assets	<u>\$ 65,357,095</u>	<u>\$ 104,942</u>	<u>\$ 65,462,037</u>
Ending Net Assets	<u>\$ 66,609,936</u>	<u>\$ 150,023</u>	<u>\$ 66,759,959</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, 2010 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	\$ <u>7,517,000</u>
<u>Liabilities</u>	
Notes Payable	<u>7,517,000</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, 2010

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	\$ <u>158,615</u>
<u>Disbursements</u>	
Note Payments:	
Interest	92,615
Principal	<u>66,000</u>
Total Disbursements	<u>158,615</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, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Basis of Presentation

Government-wide Financial Statements:

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

Fund Financial Statements:

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

1. GOVERNMENTAL FUNDS:

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting

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

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

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

- a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes 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 assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes and Other Receivables

Taxes Receivable -

Real Estate Taxes	\$ 826,663
Per Capita Taxes	218,007
Earned Income and Real Estate Transfer Taxes	<u>1,019,861</u>
Total	<u>\$ 2,064,531</u>

Other Receivables - Governmental Activities

General Fund -

Utility Billings for Sewage, Water, and Refuse \$ 3,556,716

Other General ongoing receivables 161,285

Total \$ 3,718,001

Capital Projects Fund

Miscellaneous Accounts Receivable \$ 14,562

State Grants Fund

Due from the Commonwealth of Pennsylvania \$ 1,622,241

Other Governmental Funds

Due from the Federal Government \$ 56,454

Due from the Parking Authority 579,022

Due on rents for the Alpha Building 10,021

Total \$ 645,497

Health Benefits Fund

Retiree Contribution due at 12/31/10 \$ 34,970

Liability Insurance Fund

Overpayment of Legal Bills \$ 14,874

Total Other Receivables \$ 6,050,144

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 \$350,906,5000, 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, 2010 is as follows:

The municipal tax rate for all purposes in 2010 was 24.950 Mills.

General Purposes	15.807 Mills
Debt Purposes	6.683 Mills
Recreational Purposes	<u>2.460 Mills</u>
Total	<u><u>24.950 Mills</u></u>
Prior to April 1	2% discount period
April 1 to May 30	Base payment period
After May 30	Penalty period

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Reconciliation of assessed 2010 Real Estate Taxes:

Taxes Levied based upon adjusted assessment	\$ 8,723,796
Add: Penalties	69,556
Less: Discounts	(120,647)
Cash Collections	<u>(8,262,893)</u>
Uncollected Balance as of December 31, 2010	<u><u>\$ 409,812</u></u>

Earned Income Tax Revenue

The City of Easton earned income tax rate for the year 2009 increased from 0.5% to 1.25%. The collection of the tax revenue from this rate increase was not entirely realized by the City as of December 31, 2010. Estimated 2010 tax revenue collected in the year 2011 and recorded as a receivable is \$972,458; which is recognized as part of total EIT revenue of \$4,094,323 net of \$200,000 as deferred revenue.

Prepaid Items and Inventories

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

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

Capital Assets

Capital Assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide and proprietary fund financial statements. Capital assets are defined by the "Property Accounting Ledger Report" provided by the City's independent appraisal firm as assets which an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical costs at time of purchase or construction. Major outlays for capital asset and improvement projects are capitalized as constructed, inclusive of ancillary costs. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Capital Assets (Contd.)

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

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

Compensated Absences

The City's policies regarding vacation and sick time permit certain employees to accumulate earned but unused vacation and sick leave. The liability calculated by the City for these compensated absences which is recorded as a non-current liability in the government-wide financial statements amounts to \$18,002. The current portion reported by the General Fund is \$49,568 and by the Sewage Treatment Fund is \$104,136. In the Fund Financial Statements, Governmental Funds would report only the compensated absence liability payable from expendable available financial resources.

Long-Term Obligations

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

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

Designated and Restricted Fund Balances

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 13, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as estimates useful lives in determining depreciation expense, 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.

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, 2010, the bank balance of the City's deposits with financial institutions was \$5,471,810 compared to the carrying amount of \$4,954,084. The difference is primarily caused by items in-transit and outstanding checks. \$5,035,092 of the City's deposits were exposed to custodial risk which includes uninsured bank balances that are collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the City's name, but are required to be collateralized in accordance with ACT 72 of the Pennsylvania State legislature of 1971 which requires the institution of pool collateral for all government deposits and have collateral held by an approved custodian in the institution's name.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

Governmental and Business-Type Funds: (Contd.)

Reconciliation to Financial Statements

Carrying Amount, Including Petty Cash	\$ 4,954,084
Deposits in Investment Pools Considered to be Cash equivalents	<u>31,731</u>
Total Cash and Equivalents per Financial Statements	<u>\$ 4,985,815</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, 2010

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>31,731</u>
Reconciliation to Financial Statements:	
Total Investments Above	\$ 31,731
Less: Deposits Considered to be Cash Equivalents, Investment Pools	<u>(31,731)</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, 2010

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	\$ 1,143,039
Total Cash and Cash Equivalents	<u>\$ 1,143,039</u>
Investments (Fair Value)	
Corporate Bonds	\$ 648,674
Corporate Stocks	<u>997,938</u>
Total Investments	<u>\$ 1,646,612</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, 2010

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, 2010:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents:		
State and Municipal Interest Checking Account	\$ 464,078	\$ 464,078
Evergreen Money Market Fund	<u>1,137,411</u>	<u>1,137,411</u>
Total cash and cash equivalents	<u>\$ 1,601,489</u>	<u>\$ 1,601,489</u>
Investments:		
Equity securities	\$ 15,703,679	\$ 17,965,335
Fixed income securities:		
U.S. Treasury Notes	12,362,467	11,783,904
Corporate Bonds	4,148,497	4,076,962
Commingled Funds:		
U.S. Equity Funds	<u>465,884</u>	<u>773,685</u>
Total investments	<u>\$ 32,680,527</u>	<u>\$ 34,599,886</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010, the bank balance of the Plan's deposits with financial institutions including cash equivalents was \$1,638,770 compared to the carrying amount of \$1,601,489. The difference is primarily caused by outstanding checks. The Plan's deposits of \$1,345,743 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, 2010

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

Aggregated Pension Funds (Contd.)

Cash Deposits with Financial Institutions (Contd.)

Interest Rate Risk

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

Foreign Currency Risk

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

NOTE 4 DEFERRED REVENUES

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

Real Estate and Per Capita Taxes	\$ 958,045
Utility Billings	1,872,938
Earned Income Taxes	<u>200,000</u>
Total Deferred Revenues	<u>\$ 3,030,983</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5 CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Recalculation Revision</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated:				
Land, Easements, Rights of Way	\$ 4,714,104	\$ -	\$ -	\$ 4,714,104
Capital Assets Depreciated:				
Land Improvements	960,348	68,426	-	1,028,774
Buildings & Improvements	11,359,586	-	-	11,359,586
Vehicles & Equipment	7,035,088	146,720	-	7,181,808
Infrastructure	1,667,337	26,888	-	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>\$ 41,612,711</u>	<u>\$ 434,739</u>	<u>\$ -</u>	<u>\$ 42,047,450</u>
Less: Accumulated Depreciation:				
Land Improvements	\$ (903,999)	\$ (10,958)	\$ 81,266	\$ (833,691)
Buildings & Improvements	(3,953,465)	(294,659)	6	(4,248,118)
Vehicles & Equipment	(3,675,865)	(404,001)	17,485	(4,062,381)
Infrastructure	(539,923)	(63,883)	(26,249)	(630,055)
Leased Water Plant Assets	(11,433,411)	(411,807)	-	(11,845,218)
Total Accumulated Depreciation	<u>(20,506,663)</u>	<u>(1,185,308)</u>	<u>72,508</u>	<u>(21,619,463)</u>
Total Net Capital Assets	<u>\$ 25,820,152</u>	<u>\$ (750,569)</u>	<u>\$ 72,508</u>	<u>\$ 25,142,091</u>

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

Governmental Activities:	
General	\$ 256,276
Public Safety	388,542
Sanitation Activities	66,855
Highways & Roads	144,852
Other Public Services	66,854
Recreation	<u>189,421</u>
Total Depreciation Expense -	
Governmental Activities	<u>\$ 1,112,800</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable for:</u>	<u>Payable from:</u>	
Health Benefit Fund	General Fund	\$ 1,993,962
General Fund	State Programs Fund	177,182
General Fund	Federal Programs Fund	157,888
General Fund	Miscellaneous Grant Fund	600,000
Tax-Exempt Note Fund	State Programs Fund	<u>1,606,797</u>
		<u>\$ 4,535,829</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	\$ 2,164,181
Sewage Treatment Fund	Debt Service Fund	221,490
Recreation Fund	Debt Service Fund	72,450
Capital Project Fund	Federal Grants Fund	210,000
Capital Project Fund	State Grant Funds	<u>142,794</u>
		<u>\$ 2,810,915</u>

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2010

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2010</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
Pension Debt	\$ 23,532,000	\$ -	\$ 910,000	\$ 22,622,000	\$ 834,000
Capital Debt	8,050,814	1,655,309	804,482	8,901,641	624,369
Lease Rental Debt	2,587,000	4,996,000	66,000	7,517,000	704,000
Capitalized Lease Debt	942,952	16,152	44,499	914,605	50,574
Post-Employment Benefits	1,719,326	793,004	-	2,512,330	Not Est.
Compensated Absences	<u>1,971,025</u>	<u>-</u>	<u>37,787</u>	<u>1,933,238</u>	<u>49,568</u>
Total Debt	<u>\$ 38,803,117</u>	<u>\$ 7,460,465</u>	<u>\$ 1,862,768</u>	<u>\$ 44,400,814</u>	<u>\$ 2,262,511</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2010</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
<u>Business-Type Activities:</u>					
Compensated Absences	\$ 79,169	\$ 42,969	\$ -	\$ 122,138	\$ 104,136
 <u>Pension Debt Obligations:</u>					
Federally Taxable General Obligation Bonds, Series of 2007, maturing through December 1, 2025 bearing interest ranging from 6.73% to 7.17%, interest payable semi-annually June 1 and December 1.					\$ 13,802,000
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.					8,820,000
 <u>Capital Debt Obligations</u>					
General Obligation Bonds, Series of 1992B, maturing through December 1, 2012, bearing interest ranging from 6.15% to 6.40%, interest payable semi-annually June 1 and December 1.					838,332
General Obligation Notes, Series of 2004, maturing through November 1, 2018, bearing interest ranging from 2.097% to 3.500%, interest payable semi-annually May 1 and November 1.					3,690,000
General Obligation Note, Series A of 2004, maturing through December 1, 2024, maximum principal amount of \$3,455,000, fixed interest rate of 3.80% to December 1, 2014, thereafter adjusted to equal 66% of Keystone Nazareth Bank Trust's Prime Rate, never to exceed 6.00% per annum, interest payable semi-annually June 1 and December 1.					2,718,000
General Obligation Note, Series of 2010, maturing through October 15, 2012, maximum principal amount of \$9,050,000. This Note is on a drawdown basis, interest will be charged only on amount of principal withdrawn, interest rate equal to 30-day LOBOR plus 75 basis points, not to exceed 12% per annum (not included in combined amortization schedule of City debt on p. 46)					1,655,309
 <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%.					2,521,000
Master Lease Purchase Agreement, 2007, Public Finance Com, Inc. assigned to County Farmers National Bank, 180 monthly payments, final maturity April 15, 2022.					914,605
Lease Rental Debt, Easton Municipal Authority, 2010, TD Bank, maturing through February 15, 2020 bearing interest of 3.89%.					<u>4,996,000</u>
Total					<u>\$ 39,955,246</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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>
2011	\$ 2,212,942.73	\$ 2,958,386.05	\$ 5,171,328.78
2012	2,186,250.54	2,974,653.82	5,160,904.36
2013	3,197,286.09	1,866,387.68	5,063,673.77
2014	3,075,939.80	1,723,837.46	4,799,777.26
2015	2,271,943.85	1,583,158.06	3,855,101.91
2016	2,373,089.01	1,469,311.09	3,842,400.10
2017	2,488,381.95	1,348,189.50	3,836,571.45
2018	2,614,829.61	1,220,670.99	3,835,500.60
2019	2,075,439.25	1,085,980.43	3,161,419.68
2020	2,194,218.48	967,271.24	3,161,489.72
2021	1,714,175.23	853,117.25	2,567,292.48
2022	1,877,441.42	740,864.56	2,618,305.98
2023	1,849,000.00	626,313.60	2,475,313.60
2024	1,965,000.00	506,085.52	2,471,085.52
2025	1,824,000.00	378,166.80	2,202,166.80
2026	445,000.00	252,602.00	697,602.00
2027	470,000.00	227,836.50	697,836.50
2028	500,000.00	200,623.50	700,623.50
2029	530,000.00	171,673.50	701,673.50
2030	560,000.00	140,986.50	700,986.50
2031	590,000.00	108,562.50	698,562.50
2032	625,000.00	74,401.50	699,401.50
2033	660,000.00	38,214.00	698,214.00
Totals	<u>\$ 38,299,937.96</u>	<u>\$ 21,517,294.05</u>	<u>\$ 59,817,232.01</u>

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

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

Allocation of real estate taxes \$ 2,254,856

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	\$ 300,150
Public Safety	1,174,711
Health and Welfare	10,350
Sanitation	497,844
Highways	134,550
Other Public Works	103,500
Urban Development	15,525
Sewage Treatment Fund Transfer	221,490
Total Transfers	<u>\$ 2,458,120</u>
Interest Income	<u>\$ 9</u>
Total Source of Revenues	<u>\$ 4,712,985</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 \$298,547. The City did contribute this amount to the Trust during the 2010 year. As of December 31, 2010, assets of the Trust Fund amounted to \$325,818. As presented in a Separate Financial Report available at the City's business office, the Trust assets are further designated in the amount of \$187,914 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 \$1,198,239 as of December 31, 2010.

NOTE 10 NET PENSION ASSET

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

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

Statement 27 requirements resulted in amortizing the Net Pension Asset over the plan's amortization period. Amortization expense for the year 2010 was \$699,192, and the Net Pension Asset values were \$13,279,687 for the 1996 Bond Issue (refunded by the 2007 Pension Bond Issue) and \$8,576,856 for the 2005 Bond Issue.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010:

Active plan members	114
Retirees and beneficiaries currently receiving benefits	49
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, 2010

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, 2010

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, 2010

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND (Contd.)

City of Easton Officers and Employees (Contd.)

Funding Policy - The authority under which obligations to the plan by the plan member, employer and other contributing entities are established and may be amended by PA Act 205 and Plan ordinances. Contributions can be provided by State Aid and Local Government or Employee Contributions. Active plan members are required to contribute 3.0% of compensate not covered by social security. Members who are covered shall contribute 3.5% of compensation in which social security taxes are payable and 5% on the excess. The City required contribution rate is in accordance with funding policy, in dollars or as a percentage of the current years covered payroll per the Minimum Municipal Obligation under PA Act 205, for the plan year ending December 31, 2010 the contribution was \$42,441.

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>\$ (877,697)</u>
Annual pension cost:	
Annual required contribution (ARC)	43,788
Interest on the NPO	(70,216)
Adjustments to the ARC Amortization of NPO	<u>89,396</u>
Annual Pension Cost	62,968
Contributions Made	<u>(43,788)</u>
Increase in NPO	<u>19,180</u>
NPO at the end of the period	<u><u>\$ (858,517)</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2010, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2009 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, 2009
Actuarial value of Plan assets	<u>\$ 9,891,444</u>
Actuarial accrued liability	<u>\$ 11,610,437</u>
Total unfunded actuarial liability	<u>\$ 1,718,993</u>
Annual Covered Payroll	<u><u>\$ 382,634</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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>
2008	60,647	100%	(897,306)
2009	52,811	100%	(877,697)
2010	42,441	100%	(858,517)

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, 2010

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, 2010 the contribution was \$485,312.

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>\$ (850,194)</u>
Annual pension cost:	
Annual required contribution (ARC)	434,626
Interest on the NPO	(68,016)
Adjustments to the ARC Amortization of NPO	<u>86,595</u>
Annual Pension Cost	453,205
Contributions Made	<u>(434,626)</u>
Increase in NPO	<u>18,579</u>
NPO at the end of the period	<u>\$ (831,615)</u>

Actuarial valuation date	January 1, 2009
Actuarial value of Plan assets	<u>\$ 16,463,283</u>
Actuarial accrued liability	<u>\$ 18,209,105</u>
Total unfunded actuarial liability	<u>\$ 1,745,822</u>
Annual Covered Payroll	<u>\$ 2,266,432</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2009, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based upon the 2009 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>
2008	290,276	100%	(869,188)
2009	405,504	100%	(850,194)
2010	485,312	100%	(831,615)

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, 2010

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, 2010 the contribution was \$435,973.

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>\$ (969,048)</u>
Annual pension cost:	
Annual required contribution (ARC)	485,312
Interest on the NPO	(77,524)
Adjustments to the ARC Amortization of NPO	<u>98,700</u>
Annual Pension Cost	506,488
Contributions made	<u>(485,312)</u>
Increase in NPO	<u>21,176</u>
NPO at the end of the period	<u>\$ (947,872)</u>

Actuarial valuation date	January 1, 2009
Actuarial value of Plan assets	<u>\$ 19,483,400</u>
Actuarial accrued liability	<u>\$ 25,192,009</u>
Total unfunded actuarial liability	<u>\$ 5,708,609</u>
Annual Covered Payroll	<u>\$ 3,006,049</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010, actuarial valuation using the entry age actuarial cost method, the net pension obligation is based on the 2009 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>
2008	414,750	100%	(990,655)
2009	502,305	100%	(969,048)
2010	435,973	100%	(947,872)

NOTE 12 POSTRETIREMENT BENEFITS PLAN

City of Easton Postretirement Benefit Plan

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

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

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

Benefit Provisions -

Police

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

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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>	<u>Total</u>
Estimated Net Benefit Obligation at the beginning of the period	\$ 633,106	\$ 1,086,220	\$ 1,719,326
Annual Benefit Cost:			
Annual Required Contribution (ARC)	\$ 470,459	703,370	1,173,829
Estimated Interest on Net NBO	28,490	48,880	77,370
Estimated Adjustments to ARC	<u>(38,867)</u>	<u>(66,685)</u>	<u>(105,552)</u>
Annual Benefit Obligation	\$ 460,082	\$ 685,565	1,145,647
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(172,340)</u>	<u>(180,303)</u>	<u>(352,643)</u>
Estimated Net Benefit Obligation at the end of year	<u>\$ 920,848</u>	<u>\$ 1,591,482</u>	<u>\$ 2,512,330</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010

NOTE 13 LEASE AND OPERATING AGREEMENT (Contd.)

c) Reimbursement - Reimbursement of Authority-approved invoiced direct costs related to the Morgan Hill tanks replacement project design and permitting and the City's Large Meter Replacement Program;

d) Annual Payment - One Million Three Hundred Thousand Dollars (\$1,300,000.00), payable in twelve (12) monthly payments beginning on the 15th day of the first month following the effective date of this Agreement. The amount of the annual payment will be increased by two percent (2%) each year, and calculated by multiplying the immediately preceding annual payment by 1.02%:

e) Variable Payment - The amount to be paid will equal one-third (1/3) of the capacity portion of the tapping fees collected by the Authority.

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

NOTE 14 CONTINGENT LIABILITIES

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

NOTE 15 SUBSEQUENT EVENTS

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

NOTE 16 EXTRAORDINARY LOSS - LAWSUIT SETTLEMENT

A General Release and Settlement Agreement in the amount of \$5,000,000 was approved by the Council of the City of Easton on November 9, 2009 regarding the lawsuit of the Estate of Jesse Sollman, deceased v. City of Easton. The initial payment of \$100,000 was made by the City in December 2009. The remaining \$4,900,000 was paid during 2010 with proceeds from the sale of the main fire station to the Easton Municipal Authority.

The revenue from the lease agreement used to pay the settlement is shown in Proceeds of Long-Term Debt in the governmental funds. The expenditure for the Settlement is included in general governmental expenditures. The budget was amended to include both the revenue and the expense.

NOTE 17 HUGH MOORE PARK CHARITABLE TRUST

During 2010 the Trust received a bequest from Louise Moore in the amount of \$1,500,000. The estate has not yet been finalized and a smaller additional amount is expected at settlement.

REQUIRED
SUPPLEMENTARY INFORMATION

State Administered Plans
Officers and Employees
Schedule of Funding Progress

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

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

Year Ended December 31	Annual Required Contribution	Actuarial Valuation Basis for Contributions	Percentage Contributed
1997	\$289,304	1995	100%
1998	305,472	1995	100%
1999	339,720	1997	100%
2000	331,411	1997	100%
2001	305,866	1999	100%
2002	306,221	1999	100%
2003	234,448	2001	100%
2004	257,694	2001	100%
2005	255,371	2003	100%
2006	265,623	2003	100%
2007	306,048	2005	100%
2008	311,022	2005	100%
2009	304,530	2007	100%
2010	345,618	2007	100%

Notes to Supplementary Schedules

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

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14.33 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	5.20%

Postretirement Benefit Plan
Schedule of Funding Progress

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

Significant Actuarial Methods and Assumptions

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

COMBINING SCHEDULES

CITY OF EASTON
SCHEDULE OF CAPITAL PROJECT FUNDS
DECEMBER 31, 2010

	TOTAL	Consolidated Capital	Revolving Capital	Tax-Exempt Project Fund
<u>Assets</u>				
Cash & Equivalents	\$ 682,742.39	\$ 525,344.54	\$ 108,885.93	\$ 48,511.92
Accounts Receivable	14,561.66	14,561.66	-	-
Due from Other Funds	1,606,797.18	-	-	1,606,797.18
Total Assets	<u>\$ 2,304,101.23</u>	<u>\$ 539,906.20</u>	<u>\$ 108,885.93</u>	<u>\$ 1,655,309.10</u>
<u>Liabilities & Fund Balance</u>				
Accounts Payable	\$ 14,098.57	\$ 14,098.57	-	-
General Obligation Note	1,655,309.10	-	-	1,655,309.10
Fund Balance	634,693.56	525,807.63	108,885.93	-
Total Liab. & Fund Balance	<u>\$ 2,304,101.23</u>	<u>\$ 539,906.20</u>	<u>\$ 108,885.93</u>	<u>\$ 1,655,309.10</u>
<u>Revenues</u>				
Local Income	\$ 119,100.00	-	\$ 119,100.00	-
Sale of Assets	33,089.00	-	33,089.00	-
Refund Prior Year	2,000.80	-	2,000.80	-
Total Revenues	<u>154,189.80</u>	<u>-</u>	<u>154,189.80</u>	<u>-</u>
<u>Expenditures</u>				
General -				
Equipment	\$ 24,986.77	\$ 24,986.77	-	-
Buildings	69,041.46	69,041.46	-	-
Police	154,811.72	-	154,811.72	-
Fire	9,396.62	9,396.62	-	-
Planning	132,952.98	132,952.98	-	-
Highway-				
Equipment	66,129.44	66,129.44	-	-
Sanitation	2,141.66	2,141.66	-	-
Recreation Parks	48,168.82	48,168.82	-	-
Fund Transfers	352,794.34	352,794.34	-	-
Total Expenditures	<u>860,423.81</u>	<u>705,612.09</u>	<u>154,811.72</u>	<u>-</u>
(Deficiency) Revenues (Under)				
Expenditures	(706,234.01)	(705,612.09)	(621.92)	-
Fund Balance Beginning of Year	<u>\$ 1,340,927.33</u>	<u>\$ 1,231,419.72</u>	<u>\$ 109,507.61</u>	<u>\$ -</u>
Fund Balance End of Year	<u>\$ 634,693.32</u>	<u>\$ 525,807.63</u>	<u>\$ 108,885.69</u>	<u>\$ -</u>

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2010

	TOTAL	Liquid Fuels	Federal Grants	Police Property	Restlawn	Alpha Building	Recreation	Open Space	Donations Fund	Misc. Grant	Authority CDBG
Assets											
Cash & Equivalents	\$ 948,542.68	\$ 95,707.91	\$ 171,583.00	\$ 26,081.82	\$ 31,333.19	\$ 184,543.85	\$ 120,932.41	\$ 134,415.79	\$ 13,462.13	\$ 170,482.58	\$ -
Other Assets	420,000.00	-	-	-	420,000.00	-	-	-	-	-	-
Other Receivables	645,496.94	-	56,454.00	-	-	10,021.31	-	-	-	579,021.63	-
Total Assets	\$ 2,014,039.62	\$ 95,707.91	\$ 228,037.00	\$ 26,081.82	\$ 451,333.19	\$ 194,565.16	\$ 120,932.41	\$ 134,415.79	\$ 13,462.13	\$ 749,504.21	\$ -
Liabilities & Fund Balance											
Due to Other Funds	\$ 757,888.00	\$ -	\$ 157,888.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600,000.00	\$ -
Accounts Payable	62,021.30	37,888.43	-	-	-	13,164.13	4,780.74	-	1,287.50	4,900.50	-
Deferred Revenue	8,380.98	-	-	-	-	8,380.98	-	-	-	-	-
Other Liabilities	85,953.10	-	-	-	-	14,950.05	41,003.05	-	-	30,000.00	-
Fund Balance	1,099,796.24	57,819.48	70,149.00	26,081.82	451,333.19	158,070.00	75,148.62	134,415.79	12,174.63	114,603.71	-
Total Liab. & Fund Balance	\$ 2,014,039.62	\$ 95,707.91	\$ 228,037.00	\$ 26,081.82	\$ 451,333.19	\$ 194,565.16	\$ 120,932.41	\$ 134,415.79	\$ 13,462.13	\$ 749,504.21	\$ -
Revenues											
Interest Income	\$ 3,249.16	\$ 2,919.67	\$ -	\$ 107.72	\$ -	\$ -	\$ -	\$ 211.02	\$ 10.75	\$ -	\$ -
Local Income	69,714.97	-	-	-	-	-	-	36,732.75	32,982.22	-	-
Local Government	1,583,053.77	-	-	-	-	-	833,499.97	-	-	749,553.80	-
Rental Income	327,098.17	-	-	-	-	327,098.17	-	-	-	-	-
Recreation Charges	113,919.98	-	-	-	-	-	113,919.98	-	-	-	-
Federal-Community Development	1,414,579.86	-	299,414.00	-	-	-	-	-	23,825.00	-	1,091,340.86
Other Grants	5,000.00	-	-	-	-	-	-	-	5,000.00	-	-
Shared Revenues	12,016.06	-	-	12,016.06	-	-	-	-	-	-	-
State-Liquid Fuels	446,671.29	446,671.29	-	-	-	-	-	-	-	-	-
Total Revenues	3,975,303.26	449,590.96	299,414.00	12,123.78	-	327,098.17	947,419.95	36,943.77	61,817.97	749,553.80	1,091,340.86
Expenditures											
General-											
Buildings	\$ 415,644.36	\$ -	\$ -	\$ -	\$ -	\$ 415,644.36	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety-											
Fire	-	-	-	-	-	-	-	-	-	-	-
Police	483,132.59	-	439,265.00	43,867.59	-	-	-	-	-	-	-
Sanitation/Recycling	-	-	-	-	-	-	-	-	-	-	-
Highways -											
Snow	38,415.64	38,415.64	-	-	-	-	-	-	-	-	-
Street Lighting	439,629.48	439,629.48	-	-	-	-	-	-	-	-	-
Construction	77,867.92	-	-	-	-	-	-	-	-	77,867.92	-
Recreation-											
Trees	8,877.44	-	-	-	-	-	-	-	-	8,877.44	-
Other	866,942.71	-	-	-	-	-	866,942.71	-	-	-	-
Community Development-											
Urban	1,180,440.89	-	-	-	-	-	-	-	60,678.09	28,421.94	1,091,340.86
Economic	565,742.85	-	-	-	-	-	-	-	-	565,742.85	-
Fund Transfers	(137,550.00)	-	(210,000.00)	-	-	-	72,450.00	-	-	-	-
Total Expenditures	3,939,143.88	478,045.12	229,265.00	43,867.59	-	415,644.36	939,392.71	-	60,678.09	680,910.15	1,091,340.86
Excess Revenues Over/(Under) Expenditures	36,159.38	(28,454.16)	70,149.00	(31,743.81)	-	(88,546.19)	8,027.24	36,943.77	1,139.88	68,643.65	-
Fund Balance Beginning of Year	\$ 1,063,636.86	\$ 86,273.64	\$ -	\$ 57,825.63	\$ 451,333.19	\$ 246,616.19	\$ 67,121.38	\$ 97,472.02	\$ 11,034.75	\$ 45,960.06	\$ -
Fund Balance End of Year	\$ 1,099,796.24	\$ 57,819.48	\$ 70,149.00	\$ 26,081.82	\$ 451,333.19	\$ 158,070.00	\$ 75,148.62	\$ 134,415.79	\$ 12,174.63	\$ 114,603.71	\$ -