

CITY OF EASTON
EASTON, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2013

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

CITY OF EASTON
BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the general and debt service funds budgetary comparison statements of the City of Easton, Pennsylvania as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the City of Easton Redevelopment Authority or the Easton Housing Authority. Those financial statements were audited by other auditors whose report has not been furnished to us, and our opinion, insofar as it relates to the amounts included of the City of Easton Redevelopment Authority and Easton Housing Authority, would be based on the report of other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Easton, Pennsylvania, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 5-17 and 66-68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

We do not express an opinion or provide any assurance on the schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 18 to the financial statements, in the year ended December 31, 2013 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this pronouncement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2014, on our consideration of the City of Easton, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matter. The purpose of that 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Easton, Pennsylvania's internal control over financial reporting and compliance.

Easton, Pennsylvania
August 13, 2014



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the general and debt service funds budgetary comparison statements as of the City of Easton, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Easton, Pennsylvania's basic financial statements and have issued our report thereon dated August 13, 2014. 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 of the financial statements, we considered the City of Easton, Pennsylvania's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Easton, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Easton's internal control over financial reporting.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Easton, Pennsylvania
August 13, 2014

Johnson and Company

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

INTRODUCTION

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Easton (City) for the year ended December 31, 2013. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to financial statements in order to obtain a thorough understanding of the City's financial condition as of December 31, 2013. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS AND EXECUTIVE SUMMARY

In 2013, the City continued its strong financial performance. The City's basic financial statements highlight this performance. For your convenience and information, the management of the City provides these financial highlights and executive summary:

- ***Eighth Consecutive General Fund Surplus*** – The City is pleased to report its eighth consecutive General Fund surplus (fiscal year 2006 through fiscal year 2013). The City's surplus from operating activities was \$336,043 in 2013. The City administration has assigned a large portion of the surplus as follows - \$150,000 to the City Health Benefits Fund, \$100,000 to the Revolving Capital Fund, and \$50,000 to an Other Post Employment Benefits (OPEB) Fund, which will be created in 2014 with this initial cash infusion. The remaining small, positive net surplus reflects an aggressive approach to collect as much revenue as possible, fiscal discipline, and restraint in spending.
- ***Continued Financial Stability, Earning a Two Notch Upgrade from S&P Rating Services*** – As a part of the 2013 GO Bond issue, the City of Easton had its credit rating reviewed by S&P Rating Services. Citing continued strong financial management practices, S&P increased Easton's credit rating two full notches from A- to A+. This change in credit rating positively impacted the bond issue in direct interest savings in excess of \$1 million.
- ***Adopted Fund Balance Policy*** – In December 2011, the City Council adopted a financial policy to achieve certain fund balances by December 2016. In 2013, the City has continued its efforts to meet these minimum levels. Specifically:
 - 1) ***Minimum General Fund Balance*** – Set “at a minimum of 10% of budgeted general fund revenues” by 2016 or \$3.22 million using the 2014 budget for reference. As of December 31, 2013, the City had a General Fund balance of \$2,919,407, which is over 90% of the minimum goal.
 - 2) ***Minimum Health Care Fund Balance*** – “Should maintain a balance of \$3,000,000” by 2016. As of December 31, 2013, the City had a Health Care Fund balance of \$938,427 which is over 31% of the minimum goal. After an assigned contribution is made to the fund in 2014, the balance will be over 36% of the minimum goal.

- 3) *Minimum Liability and Casualty Fund Balance* – “Should maintain a balance of \$1,500,000” by 2016. As of December 31, 2012, the City had a Liability and Casualty Fund balance of \$832,996, which is over 55% of the minimum goal.

These highlights are detailed in the information provided below.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts:

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

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

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

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

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

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

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

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

Government-wide financial statements

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

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

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

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

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

There are two categories of activities for the primary government.

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

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

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

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

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

Fund financial statements

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

The City has three kinds of funds:

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's total assets were \$73.74 million at December 31, 2013. Of this amount, \$24.61 million was capital assets, including infrastructure and construction in progress. Prior to the adoption of GASB No. 34 in 2003, infrastructure (roads, bridges, etc.) had not been reported or depreciated in governmental financial statements.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The City believes it has included all infrastructure in the 2013 financial statements.

City of Easton, Pennsylvania
Management's Discussion and Analysis

Table A-2: Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current Assets	\$30,611,355	\$13,199,093	\$717,700	\$513,718	31,329,055	\$13,712,811
Capital assets, net	24,608,904	26,638,801	-	-	24,608,904	26,638,801
Other non-current assets	18,518,609	19,346,849	-	-	18,518,609	19,346,849
Total assets	73,738,868	59,184,743	717,700	513,718	74,456,568	59,698,461
Current and other liabilities	5,170,998	4,062,067	538,935	332,251	5,709,933	4,394,318
Long-term liabilities	55,397,304	40,400,898	133,010	135,712	55,530,314	40,536,610
Total liabilities	60,568,302	44,462,965	671,945	467,963	61,240,247	44,930,928
Net assets:						
Invested in capital assets, net of debt and Net Pension Assets	5,634,639	9,675,829	-	-	5,634,639	9,675,829
Restricted net assets	1,799,338	3,354,251	-	-	1,799,338	3,354,251
Unrestricted net assets	5,736,589	1,691,698	45,755	45,755	5,782,344	1,737,453
Total net assets	13,170,566	14,721,778	45,755	45,755	13,216,321	14,767,533

The assets of the City exceeded its liabilities (total net assets) at the close of 2013 by \$13,170,566.

City of Easton, Pennsylvania
Management's Discussion and Analysis

Table A-3: Changes in net assets

The following statement of activities represents changes in net assets for the year ended December 31, 2013. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$14,156,680	\$12,961,106	4,711,997	\$4,410,685	18,868,677	\$17,371,791
Operating grants and contributions	4,929,977	5,398,469	87,010	76,526	5,016,987	5,474,995
Capital grants	4,039,884	4,140,125	-	-	4,039,884	4,140,125
General revenues:						
Taxes	16,580,569	15,283,446	-	-	16,580,569	15,283,446
Investment earnings	226,662	200,119	-	-	226,662	200,119
Misc. revenues	7,768,382	369,139	-	-	7,768,382	459,139
Total revenues	47,702,154	38,352,404	4,799,007	4,487,211	52,501,161	42,991,128
Expenses:						
General government	14,580,676	5,792,269	-	-	14,580,676	5,792,269
Public safety	18,015,003	15,082,504	-	-	18,015,003	15,082,204
Health & Welfare	67,551	71,889	-	-	67,551	71,889
DPW – Sanitation	6,124,374	5,615,148	-	-	6,124,374	5,615,148
DPW – Highways	2,820,332	4,870,651	-	-	2,820,332	4,960,651
Other Public Works	443,121	337,805	-	-	443,121	337,805
Culture – Recreation	2,713,569	1,176,862	-	-	2,713,569	1,255,230
Community Development	3,561,639	3,161,432	-	-	3,561,639	3,161,432
Debt Service	826,050	3,783,401	-	-	826,050	3,783,401
Sewer fund	-	-	4,593,633	4,495,821	4,593,633	4,495,821
Total expenses	49,152,315	39,891,963	4,593,633	4,495,821	53,745,948	44,387,784
Change in net assets before transfers	(1,450,161)	(1,539,559)	205,374	(8,610)	(1,244,787)	(1,548,169)
Transfers	205,374	209,634	(205,374)	(209,634)	-	-
Refund of Prior Year Expense	-	124,526	-	69,723	-	194,249
Change in net assets	1,244,787	(1,205,403)	-	(148,521)	(1,244,787)	(1,353,920)
Net assets, beginning	14,415,353	15,927,177	45,755	194,276	14,461,108	16,121,453
Net assets, ending	13,170,566	14,721,738	45,755	45,755	13,216,321	14,767,533

Total government-wide revenues of \$47.02 million came primarily from taxes of \$16.58 million, representing 35.26% of the total. Charges for services at \$14.16 million made up the second largest source at 30.01%. Miscellaneous revenues of \$7.77 million, representing 16.52%, were the third largest source. Operating grants of \$4.93 million, representing 10.49%, were the fourth largest source. All other revenue sources made up the remaining 7.72%.

City of Easton, Pennsylvania
 Management's Discussion and Analysis

Total expenses for all programs in 2013 were \$49.15 million. The expenses cover a range of services, with the largest two being public safety at \$18.02 million or 36.65% and general government at \$14.58 million or 29.66%. The large increase in spending on general government is noted and is due to the construction of the new Easton City Hall and Transportation Center.

Capital Assets

The City's investment in capital assets at December 31, 2013, net of accumulated depreciation, was \$24.6 million. Capital assets consist primarily of land, site improvements, buildings and improvements, machinery & equipment, infrastructure, water treatment plant, and construction in progress. Table A-4 is a summary of capital assets as of December 31, 2013 and 2012.

Table A-4: Capital assets at December 31, 2013 and 2012

	Governmental Activities	
	2013	2012
Land (Not Depreciated)	7,672,373	\$7,672,373
Site Improvements	172,082	179,749
Buildings & Improvements	1,894,132	6,661,584
Machinery & Equipment	2,664,201	3,076,260
Infrastructure	1,134,209	934,610
Water Treatment Plant	7,509,713	7,921,520
Construction In Progress	3,562,194	192,705
Total Capital Assets (net of depreciation)	24,608,904	26,638,801

The change in capital assets was minimal between 2012 and 2013. Most of that change is related to the sale of the Alpha Building.

Long-term Debt

At December 31, 2013, the City had \$50.42 million of debt outstanding, including bonds, notes, and master lease purchase agreements. This was a net increase of \$13,261,732 from the previous year. The large increase is due to the sale of \$16.92 million in bonds in 2013 to fund the construction of the new Easton City Hall and Transportation Center, Easton Public Market, and a public safety training facility. Table A-5 provides a summary of outstanding debt.

Table A-5: Summary of outstanding debt

	Governmental Activities	
	2013	2012
<i>Pension Debt Obligations</i>		
Bond Series of 2005	\$8,190,000	\$8,410,000
Bond Series of 2007	11,869,000	12,493,000
<i>Capital Debt Obligations</i>		
Bond Series of 2011	7,440,000	7,700,000
Note Series of 2010 (Wells Fargo Bank)	960,592	1,603,018
Taxable Note of 2011	648,444	-
Bond Series of 2013	16,920,000	-
<i>Other Debt Obligations</i>		
Master Lease Purchase Agreement	748,458	808,745
EMA Note Series of 2010 (TD Bank)	3,648,000	4,093,000
EMA Note Series of 2005 (Wells Fargo Bank)	-	2,055,000
Total Outstanding Debt	\$50,424,494	\$37,162,762

Bond Rating

As a part of the 2013 GO Bond issue, the City of Easton had its credit rating reviewed by S&P Rating Services. Citing continued strong financial management practices, S&P increased Easton's credit rating two full notches from A- to A+.

GOVERNMENTAL FUNDS

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

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

The City's governmental funds include the general fund, debt service fund, capital and bond funds, state grants fund, and other governmental (minor) funds. The general fund is the chief operating fund for the City. The debt service fund is used to record the funding and payment of principal and interest on the issuance of debt in the governmental funds. The capital projects funds account for the proceeds of bond issues, note issues, and extraordinary revenue used to fund short-term capital needs. The major funds are shown on the Statement of Revenues, Expenditures, and Changes in Fund Balance in the financial statements.

Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2013 and 2012 were as follows. Table A-6 also presents changes from 2012 to 2013

Table A-6: Revenues by source, governmental funds

	2013	2012	Changes from 2012 to 2013	Percent change
Revenues:				
Taxes	\$16,474,412	\$14,921,006	1,553,406	10.41
Licenses	363,164	356,485	6,679	1.87
Fines & Forfeits	899,378	810,731	88,647	10.93
Interest & Rents	2,011,442	2,068,566	(57,124)	(2.76)
Intergovernmental	8,969,861	9,538,594	(568,733)	(5.90)
Charges for Services	10,894,798	10,044,355	850,443	8.47
Miscellaneous	3,768,379	368,179	3,400,200	923.52
Total revenues	\$43,381,434	\$38,107,916	5,273,518	13.30

Governmental fund revenues totaled \$42.70 million for the year ended December 31, 2013. This is an increase from 2012, primarily due to the sale of the Alpha Building. After subtracting the sale amount of \$4 million, operating revenues were relatively flat year to year.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2013 and 2012 were as follows. Table A-7 also presents changes from 2012 to 2013.

Table A-7: Expenditures by function, governmental funds

	2013	2012	Changes from 2012 to 2013	Percent change
Expenses:				
General Government	\$11,549,607	\$5,613,899	\$5,935,708	105.73
Public Safety	15,305,599	13,826,577	1,479,022	10.70
Health & Welfare	67,551	71,889	(4,338)	(6.03)
DPW – Sanitation	5,962,147	5,547,909	414,238	7.47
DPW – Roads	2,546,586	4,723,967	(2,177,381)	(46.09)
DPW – Other	355,734	343,088	12,646	3.69
Culture – Recreation	2,426,576	982,951	1,443,625	146.87
Urban Development	3,561,639	3,161,432	400,207	12.66
Debt Service	4,562,400	5,035,797	(473,397)	(9.40)
Total expenses	46,337,839	39,307,809	7,030,030	17.88

Governmental fund expenditures totaled \$46.34 million for the year ended December 31, 2013, a decrease of 17.88% from 2012. The increase in 2012 expenditures is largely explained by the construction of the new Easton City Hall and Transportation Center.

Governmental fund balances

Table A-8 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2013 and 2012.

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

	2013		2012	
	Governmental funds	Proprietary funds	Governmental funds	Proprietary funds
General	\$2,919,407	-	\$2,583,364	-
Debt Service	113,153	-	59,310	-
Capital & Bond	12,355,462	-	497,770	-
State Grants	148,877	-	28,065	-
Other Governmental	6,344,020	-	841,532	-
Health	-	\$938,427	-	\$2,647,843
Insurance	-	832,996	-	687,960
Unemployment	-	27,915	-	18,448
Sewer	-	45,755	-	45,755
Total	\$21,880,919	\$1,845,093	\$4,010,041	\$3,354,251

The City's governmental funds reported a combined fund balance of \$21.2 million at December 31, 2013. The City's proprietary funds reported a combined fund balance of \$1.85 million at December 31, 2013.

In 2013, \$2.62 million (or 89.7%) of the general fund balance was designated as unassigned. As stated earlier in this report, the City administration has assigned \$300,000 of the 2013 operating surplus – \$150,000 to the City Health Benefits Fund, \$100,000 to the Revolving Capital Fund, and \$50,000 to an Other Post Employment Benefits (OPEB) Fund, which will be created in 2014 with this initial cash infusion. The balance sheet for government funds provides a breakdown for all fund balances as required by GASB 54.

Budgetary highlights

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

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

Collective Bargaining Issues

During the course of 2013, multi-year agreements remained in place with all three labor unions: Fraternal Order of Police (FOP) Lodge 17, International Association of Fire Fighters (IAFF) Local 713, and American Federation of State County and Municipal Employees Local 447. The FOP Lodge 17 contract ends on December 31, 2014. The contract with IAFF Local

713 was renegotiated in 2012; the new contract ends on December 31, 2016. The contract with AFSCME Local 447 was also renegotiated in 2012; the new contract ends on December 31, 2017.

Economic Condition and Outlook

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

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

Requests for Information

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

CITY OF EASTON
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<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	\$ 21,429,518	\$ 237,318	\$ 21,666,836	\$ 3,789,265
Taxes Receivable (net)	1,877,104	-	1,877,104	-
Other Receivables	4,667,824	480,382	5,148,206	2,504,089
Prepaid Items	34,483	-	34,483	95,889
Other Assets	1,734,864	-	1,734,864	406,403
Current Portion of Net Pension Asset	867,562	-	867,562	-
Total Current Assets	<u>30,611,355</u>	<u>717,700</u>	<u>31,329,055</u>	<u>6,795,646</u>
Non-Current Portion of Net Pension Asset	18,518,609	-	18,518,609	720,000
Capital Assets (net of depreciation):				
Land	7,672,373	-	7,672,373	498,075
Site Improvements	172,082	-	172,082	-
Buildings and Improvements	1,894,132	-	1,894,132	3,220,250
Machinery and Equipment	2,664,201	-	2,664,201	2,032,693
Infrastructure	1,134,209	-	1,134,209	70,477,867
Water Treatment Plant	7,509,713	-	7,509,713	20,216,447
Construction in Progress	3,562,194	-	3,562,194	-
Total Non-Current Assets	<u>43,127,513</u>	<u>-</u>	<u>43,127,513</u>	<u>97,165,332</u>
Total Assets	<u>\$ 73,738,868</u>	<u>\$ 717,700</u>	<u>\$ 74,456,568</u>	<u>\$ 103,960,978</u>
<u>Liabilities and Net Position</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 2,621,148	\$ 193,687	\$ 2,814,835	\$ 567,842
Internal Balances	(342,526)	342,526	-	-
Other Current Liabilities	304,195	-	304,195	222,987
Accrued Salaries Payable	42,562	2,722	45,284	87,088
Accrued Interest Payable	189,534	-	189,534	67,501
Contracts Payable - Completed Portion	-	-	-	16,985
Deferred Income	-	-	-	4,179
Current Portion -				
Bonds Payable	2,344,384	-	2,344,384	2,064,200
Compensated Absences	11,701	-	11,701	-
Non-Current Portion -				
Bonds Payable	48,080,110	-	48,080,110	33,167,808
Compensated Absences	2,256,716	133,010	2,389,726	-
Post-Employment Benefits	5,060,478	-	5,060,478	-
Total Liabilities	<u>60,568,302</u>	<u>671,945</u>	<u>61,240,247</u>	<u>36,198,590</u>
<u>Net Position</u>				
Invested in Capital Assets and Net Pension Assets	5,634,639	-	5,634,639	61,836,874
Restricted for Insurance Purposes	1,799,338	-	1,799,338	-
Unrestricted	5,736,589	45,755	5,782,344	5,925,514
Total Net Position	<u>13,170,566</u>	<u>45,755</u>	<u>13,216,321</u>	<u>67,762,388</u>
Total Liabilities and Net Position	<u>\$ 73,738,868</u>	<u>\$ 717,700</u>	<u>\$ 74,456,568</u>	<u>\$ 103,960,978</u>

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program Revenues</u>				<u>Net (Expense)/Revenue and Changes in Net Assets</u>			<u>Component Units</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Governmental Activities</u>								
General Government	\$ (14,580,676)	\$ 2,304,318	\$ 3,212,147	\$ 255,391	\$ (8,808,820)	\$ -	\$ (8,808,820)	\$ -
Public Safety	(18,015,003)	1,668,318	34,538	-	(16,312,147)	-	(16,312,147)	-
Health and Welfare	(67,551)	57,970	-	-	(9,581)	-	(9,581)	-
Public Works - Sanitation	(6,124,374)	9,235,213	-	-	3,110,839	-	3,110,839	-
Public Works - Highways	(2,820,332)	-	1,380,648	888,442	(551,242)	-	(551,242)	-
Public Works - Other Public Works	(443,121)	783,364	-	-	340,243	-	340,243	-
Culture - Recreation	(2,713,569)	107,497	-	158,374	(2,447,698)	-	(2,447,698)	-
Community Development	(3,561,639)	-	302,644	2,737,677	(521,318)	-	(521,318)	-
Debt Service	(826,050)	-	-	-	(826,050)	-	(826,050)	-
Total Governmental Activities	<u>\$ (49,152,315)</u>	<u>\$ 14,156,680</u>	<u>\$ 4,929,977</u>	<u>\$ 4,039,884</u>	<u>\$ (26,025,774)</u>	<u>\$ -</u>	<u>\$ (26,025,774)</u>	<u>\$ -</u>
<u>Business-Type Activities</u>								
Sewage Treatment Plant Operations	\$ (4,593,633)	4,711,997	87,010	-	-	205,374	205,374	-
Total Primary Government	<u>\$ (53,745,948)</u>	<u>\$ 18,868,677</u>	<u>\$ 5,016,987</u>	<u>\$ 4,039,884</u>	<u>\$ (26,025,774)</u>	<u>\$ 205,374</u>	<u>\$ (25,820,400)</u>	<u>\$ -</u>
<u>Component Units</u>								
Water and Parking	<u>\$ (12,029,792)</u>	<u>\$ 12,873,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 844,030</u>
<u>General Revenues:</u>								
Property and Other Taxes					\$ 16,580,569	\$ -	\$ 16,580,569	\$ -
Sale of Assets					4,000,000	-	4,000,000	-
Miscellaneous					3,768,381	-	3,768,381	-
Unrestricted Interest Earnings					226,663	-	226,663	-
Interfund Transfers					205,374	(205,374)	-	-
Total General Revenues					<u>24,780,987</u>	<u>(205,374)</u>	<u>24,575,613</u>	<u>-</u>
Changes in Net Position					(1,244,787)	-	(1,244,787)	844,030
Depreciation Developer Capital					-	-	-	(866,182)
Capital Value Provided by Developers					-	-	-	270,913
Net Position - Beginning					<u>\$ 14,415,353</u>	<u>\$ 45,755</u>	<u>\$ 14,461,108</u>	<u>\$ 67,513,627</u>
Net Position - Ending					<u>\$ 13,170,566</u>	<u>\$ 45,755</u>	<u>\$ 13,216,321</u>	<u>\$ 67,762,388</u>

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

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	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	\$ 1,580,660	\$ 14,153	\$ 12,928,167	\$ 260,941	\$ 6,496,675	\$ 21,280,596
Taxes Receivable	1,877,104	-	-	-	-	1,877,104
Other Receivables	3,224,591	-	-	1,413,657	23,490	4,661,738
Other Assets	3,031	914,000	537,833	-	280,000	1,734,864
Due from Other Funds	2,306,899	100,000	960,592	-	-	3,367,491
	<u>\$ 8,992,285</u>	<u>\$ 1,028,153</u>	<u>\$ 14,426,592</u>	<u>\$ 1,674,598</u>	<u>\$ 6,800,165</u>	<u>\$ 32,921,793</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Due to Other Funds	\$ 2,171,709	\$ 914,000	\$ 608,663	\$ 1,498,439	\$ 364,115	\$ 5,556,926
Accounts Payable	1,606,225	1,000	1,875	27,282	62,653	1,699,035
Accrued Salaries and Benefits	42,562	-	-	-	-	42,562
Other Current Liabilities	94,611	-	-	-	29,377	123,988
Other Long-Term Liabilities	180,207	-	960,592	-	-	1,140,799
Unearned Revenue	-	-	500,000	-	-	500,000
	<u>4,095,314</u>	<u>915,000</u>	<u>2,071,130</u>	<u>1,525,721</u>	<u>456,145</u>	<u>9,063,310</u>
<u>Deferred Inflows of Resources</u>						
Unavailable revenue - property taxes	1,096,132	-	-	-	-	1,096,132
Unavailable revenue - utility billings	881,432	-	-	-	-	881,432
	<u>1,977,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,977,564</u>
<u>Fund Balances:</u>						
Non-Spendable	3,031	-	-	-	-	3,031
Restricted	-	-	-	-	-	-
Committed	-	113,153	12,355,462	-	-	12,468,615
Assigned	300,000	-	-	148,877	6,344,020	6,792,897
Unassigned	2,616,376	-	-	-	-	2,616,376
	<u>2,919,407</u>	<u>113,153</u>	<u>12,355,462</u>	<u>148,877</u>	<u>6,344,020</u>	<u>21,880,919</u>
Total Liabilities and Fund Balances	<u>\$ 8,992,285</u>	<u>\$ 1,028,153</u>	<u>\$ 14,426,593</u>	<u>\$ 1,674,598</u>	<u>\$ 6,800,165</u>	<u>\$ 32,921,793</u>

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

CITY OF EASTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013

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

Total fund balances - governmental funds (page 20)		\$ 21,880,919
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 \$48,066,132 and the accumulated depreciation is \$23,457,229.		24,608,903
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.		1,977,566
Sewer judgement in regard to the condemnation of land during the construction on I-78.		500,000
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The net assets have been included in governmental activities.		1,799,338
Net pension asset to be amortized over period of pension debt in accordance with actuarial calculations.		19,386,171
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	(50,424,494)	
Long-Term Debt included in Capital Projects	960,592	
Accrued Interest Expense	(189,534)	
Compensated Absences	(2,268,417)	
Post Employment Benefits	(5,060,478)	(56,982,331)
Total Net Position - Governmental Activities		<u>\$ 13,170,566</u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital and Bond Funds</u>	<u>State Grants Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>						
Taxes	\$ 13,151,569	2,398,844	\$ -	\$ -	\$ 923,999	\$ 16,474,412
Licenses and Permits	363,164	-	-	-	-	363,164
Fines and Forfeits	899,378	-	-	-	-	899,378
Interest and Rents	1,671,902	2	-	-	339,538	2,011,442
Intergovernmental	3,497,082	-	221,419	2,661,629	2,589,731	8,969,861
Charges for Service	10,787,301	-	-	-	107,497	10,894,798
Miscellaneous	464,547	-	-	-	3,303,832	3,768,379
Total Revenues	<u>30,834,943</u>	<u>2,398,846</u>	<u>221,419</u>	<u>2,661,629</u>	<u>7,264,597</u>	<u>43,381,434</u>
<u>Expenditures:</u>						
General Government	5,434,543	-	3,575,991	-	2,539,073	11,549,607
Public Safety	14,935,818	-	321,218	34,726	13,837	15,305,599
Health and Welfare	67,551	-	-	-	-	67,551
Public Works - Sanitation	5,962,147	-	-	-	-	5,962,147
Public Works - Roads	1,135,876	-	88,428	861,917	460,365	2,546,586
Public Works - Other	355,734	-	-	-	-	355,734
Culture - Recreation	-	-	1,000,000	72,424	1,354,152	2,426,576
Urban Development	686,892	-	-	1,571,750	1,302,997	3,561,639
Debt Service	-	4,562,400	-	-	-	4,562,400
Total Expenditures	<u>28,578,561</u>	<u>4,562,400</u>	<u>4,985,637</u>	<u>2,540,817</u>	<u>5,670,424</u>	<u>46,337,839</u>
Excess (deficiency) of revenues over expenditures	<u>2,256,382</u>	<u>(2,163,554)</u>	<u>(4,764,218)</u>	<u>120,812</u>	<u>1,594,173</u>	<u>(2,956,405)</u>
<u>Other Financing Sources (Uses)</u>						
Transfers In	-	2,217,397	-	-	-	2,217,397
Transfers (Out)	(1,920,339)	-	-	-	(91,685)	(2,012,024)
Proceeds of General Long-Term Debt	-	-	16,920,000	-	-	16,920,000
Fiscal Agent Fees	-	-	(298,090)	-	-	(298,090)
Sale of Assets	-	-	-	-	4,000,000	4,000,000
Total Other Financing Sources (Uses)	<u>(1,920,339)</u>	<u>2,217,397</u>	<u>16,621,910</u>	<u>-</u>	<u>3,908,315</u>	<u>20,827,283</u>
Net Change in Fund Balances	336,043	53,843	11,857,692	120,812	5,502,488	17,870,878
Fund Balances - Beginning	<u>\$ 2,583,364</u>	<u>\$ 59,310</u>	<u>\$ 497,770</u>	<u>\$ 28,065</u>	<u>\$ 841,532</u>	<u>\$ 4,010,041</u>
Fund Balances - Ending	<u><u>\$ 2,919,407</u></u>	<u><u>\$ 113,153</u></u>	<u><u>\$ 12,355,462</u></u>	<u><u>\$ 148,877</u></u>	<u><u>\$ 6,344,020</u></u>	<u><u>\$ 21,880,919</u></u>

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

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, 2013

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

Net Change in Fund Balances - Governmental Funds (page 22)	\$ 17,870,878
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 (\$1,148,868) is less than capital outlays (\$3,661,480) in the period.	2,512,612
Acquisition of additional long-term debt	(16,920,000)
Change in fixed assets due to the sale of the Alpha Building	(4,542,509)
Repayment of current bond principal net refunded debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	4,569,111
Adjustment due to the refinancing of debt	(1,388,284)
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.	320,720
In the statement of activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). Vacation and sick leave earned increased by this amount this year.	(440,715)
In the statement of activities, certain operating expenses (other post-employment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). The post-employment benefits recognized as unfunded for the current year are expensed in the Statement of Changes in Fund Balance.	(838,926)
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.	(19,141)
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The decrease in net assets has been allocated within governmental activities.	(1,554,913)
Net pension assets resulting from the funding of the actuarial unfunded pension costs are amortized in the Statement of Changes in Fund Balance.	<u>(813,620)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (1,244,787)</u></u>

CITY OF EASTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes	\$ 13,381,432	\$ 13,456,431	\$ 13,151,569	(304,862)
Licenses and Permits	343,000	368,000	363,164	(4,836)
Fines and Forfeits	891,040	891,040	899,378	8,338
Interest and Rents	1,836,022	1,709,033	1,671,902	(37,131)
Intergovernmental	2,258,881	3,538,370	3,497,082	(41,288)
Charges for Service	12,154,836	10,885,347	10,787,301	(98,046)
Miscellaneous	380,360	535,350	464,547	(70,803)
Total Revenues	<u>31,245,571</u>	<u>31,383,571</u>	<u>30,834,943</u>	<u>(548,628)</u>
<u>Expenditures:</u>				
General Government	3,459,907	5,618,518	5,434,543	183,975
Public Safety	15,484,962	15,541,293	14,935,818	605,475
Health and Welfare	88,401	88,401	67,551	20,850
Public Works - Sanitation	6,017,770	5,982,919	5,962,147	20,772
Public Works - Roads	1,209,114	1,218,623	1,135,876	82,747
Public Works - Other	2,482,982	361,525	355,734	5,791
Urban Development	752,096	821,953	686,892	135,061
Total Expenditures	<u>29,495,232</u>	<u>29,633,232</u>	<u>28,578,561</u>	<u>1,054,671</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,750,339</u>	<u>1,750,339</u>	<u>2,256,382</u>	<u>506,043</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In/(Out)	(1,920,339)	(1,920,339)	(1,920,339)	-
Refund of Prior Year Expenditures	170,000	170,000		(170,000)
Total Other Financing Sources (Uses)	<u>(1,750,339)</u>	<u>(1,750,339)</u>	<u>(1,920,339)</u>	<u>(170,000)</u>
Net Change in Fund Balance	-	-	336,043	336,043
Fund Balance - Beginning	<u>\$ 2,539,381</u>	<u>\$ 2,539,381</u>	<u>\$ 2,583,364</u>	<u>N/A</u>
Fund Balance - Ending	<u>\$ 2,539,381</u>	<u>\$ 2,539,381</u>	<u>\$ 2,919,407</u>	<u>N/A</u>

CITY OF EASTON
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes - Allocated from Levy	\$ 2,398,844	\$ 2,398,844	\$ 2,398,844	\$ -
Interest Income	-	-	2	2
Total Revenues	<u>2,398,844</u>	<u>2,398,844</u>	<u>2,398,846</u>	<u>2</u>
<u>Expenditures:</u>				
Debt Service Principal	2,750,285	2,750,285	2,750,285	-
Debt Service Interest	1,861,456	1,861,456	1,809,115	(52,341)
Fiscal Agent Fees	4,500	4,500	3,000	(1,500)
Total Expenditures	<u>4,616,241</u>	<u>4,616,241</u>	<u>4,562,400</u>	<u>(53,841)</u>
(Deficiency) of Revenues over Expenditures	<u>(2,217,397)</u>	<u>(2,217,397)</u>	<u>(2,163,554)</u>	<u>53,843</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from Bonds	-	-	-	-
Prior Year Undesignated	-	-	-	-
Transfers In - Fund Allocations	2,217,397	2,217,397	2,217,397	-
Total Other Financing Sources	<u>2,217,397</u>	<u>2,217,397</u>	<u>2,217,397</u>	<u>-</u>
Net Change in Fund Balance	-	-	53,843	53,843
Fund Balance - Beginning	<u>\$ 309,344</u>	<u>\$ 200,493</u>	<u>\$ 59,310</u>	<u>N/A</u>
Fund Balance - Ending	<u><u>\$ 309,344</u></u>	<u><u>\$ 200,493</u></u>	<u><u>\$ 113,153</u></u>	<u><u>N/A</u></u>

CITY OF EASTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-type Activity	Governmental Activities			
	Enterprise Fund	Internal Service Funds			
	Sewage Treatment Plant Fund	Health Benefit Insurance	Liability Insurance	Unemployment Insurance	Total Internal Service Funds
<u>Assets</u>					
Cash and Cash Equivalents	\$ 237,318	\$ 104,161	43,829	932	\$ 148,922
Accounts Receivable	480,382	6,086	-	-	6,086
Due from Other Funds	-	1,750,295	789,167	-	2,539,462
Prepaid Assets	-	-	-	34,483	34,483
Total Assets	\$ 717,700	\$ 1,860,542	\$ 832,996	\$ 35,415	\$ 2,728,953
<u>Liabilities</u>					
<u>Current Liabilities:</u>					
Accounts Payable	\$ 193,687	\$ 922,115	\$ -	\$ -	\$ 922,115
Accrued Salaries Payable	2,722	-	-	-	-
Due to General Fund	-	-	-	7,500	7,500
Due to Other Funds	342,526	-	-	-	-
Total Current Liabilities	538,935	922,115	-	7,500	929,615
<u>Non-Current Liabilities:</u>					
Compensated Absences	133,010	-	-	-	-
<u>Net Position</u>					
Restricted for Health Benefits	-	938,427	-	-	938,427
Restricted for Liability Insurance	-	-	832,996	27,915	860,911
Unrestricted	45,755	-	-	-	-
Total Net Position	45,755	938,427	832,996	27,915	1,799,338
Total Net Position & Liabilities	\$ 717,700	\$ 1,860,542	\$ 832,996	\$ 35,415	\$ 2,728,953

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

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-type	Governmental Activities			
	Activity				
	Enterprise Fund	Internal Service Funds			
	Sewage Treatment Plant Fund	Health Benefit Insurance	Liability Insurance	Unemployment Insurance	Total Internal Service Funds
<u>Operating Revenues</u>					
Sewer Treatment Charges	\$ 4,711,997	\$ -	\$ -	\$ -	\$ -
Fund Allocations	-	2,139,813	947,000	31,267	3,118,080
Pension Aid Allocation	87,010	-	-	-	-
Participant Contributions	-	557,655	-	-	557,655
Total Operating Revenue	<u>4,799,007</u>	<u>2,697,468</u>	<u>947,000</u>	<u>31,267</u>	<u>3,675,735</u>
<u>Operating Expenses</u>					
Health Claim Payments	-	4,406,884	-	-	4,406,884
Liability/Unemployment Insurance	-	-	1,024,906	16,529	1,041,435
Sewage Treatment Plant Operations	4,593,633	-	-	-	-
Total Operating Expenses	<u>4,593,633</u>	<u>4,406,884</u>	<u>1,024,906</u>	<u>16,529</u>	<u>5,448,319</u>
Operating Income (Loss)	<u>205,374</u>	<u>(1,709,416)</u>	<u>(77,906)</u>	<u>14,738</u>	<u>(1,772,584)</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Income	-	-	11	-	11
Miscellaneous	-	-	222,931	-	222,931
Transfer (Out)	(205,374)	-	-	-	-
Prior Year Expenses	-	-	-	(5,271)	(5,271)
Total Non-Operating Revenues (Expenses)	<u>(205,374)</u>	<u>-</u>	<u>222,942</u>	<u>(5,271)</u>	<u>217,671</u>
Change in Net Position	-	(1,709,416)	145,036	9,467	(1,554,913)
Net Position - Beginning	<u>\$ 45,755</u>	<u>\$ 2,647,843</u>	<u>\$ 687,960</u>	<u>\$ 18,448</u>	<u>\$ 3,354,251</u>
Net Position - Ending	<u>\$ 45,755</u>	<u>\$ 938,427</u>	<u>\$ 832,996</u>	<u>\$ 27,915</u>	<u>\$ 1,799,338</u>

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

CITY OF EASTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund Sewage Treatment Fund</u>	<u>Internal Service Funds</u>
Cash Flows from Operating Activities:		
Cash Received from Governmental Entities	\$ 4,799,007	\$ -
Participant Contributions	-	557,655
Cash Received from Funds Allocations	-	3,118,080
Payments for Sewage Treatment Operations	(4,540,426)	-
Payments for Insurance and Claims	-	(5,094,022)
Net Cash Provided by (Used for) Operating Activities	<u>258,581</u>	<u>(1,418,287)</u>
Cash Flows from Non-Capital Financing Activities		
Refunds of Prior Year Expenditures	-	(5,271)
Other Revenues (Expenses)	(205,374)	222,931
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(205,374)</u>	<u>217,660</u>
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	-	11
Net (Decrease) in Cash and Cash Equivalents	53,207	(1,200,616)
Cash and Cash Equivalents - January 1	<u>\$ 184,111</u>	<u>\$ 1,349,538</u>
Cash and Cash Equivalents - December 31	<u>\$ 237,318</u>	<u>\$ 148,922</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss)	<u>\$ 205,374</u>	<u>\$ (1,772,584)</u>
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease Accounts Receivables	-	(217,167)
(Increase) Decrease Intergovernmental Receivables	(150,775)	-
(Increase) Decrease Prepaid Items	-	(17,955)
Increase (Decrease) Current Liabilities	206,684	589,419
Increase (Decrease) Compensated Absences (Non-Current)	(2,702)	-
Total Adjustments	<u>53,207</u>	<u>354,297</u>
Net Cash Provided by/(Used for) Operating Activities	<u>\$ 258,581</u>	<u>\$ (1,418,287)</u>

CITY OF EASTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 1,265,110	\$ 413,992	\$ 6,250
Investments at Fair Value:			
Fixed Income Securities	12,587,445	-	-
Corporate Stocks	15,639,448	-	-
Mutual Funds	8,671,285	3,036,850	-
Accrued Interest Receivable	120,721	-	-
	<u>38,284,009</u>	<u>3,450,842</u>	<u>6,250</u>
Total Assets	<u>\$ 38,284,009</u>	<u>\$ 3,450,842</u>	<u>\$ 6,250</u>
<u>Liabilities</u>			
Escrow Payable	\$ -	\$ -	\$ 6,250
Accounts Payable	-	-	-
	<u>-</u>	<u>-</u>	<u>6,250</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>6,250</u>
<u>Net Position</u>			
Net Position in Trust for Pension Benefits and and Other Purposes	<u>\$ 38,284,009</u>	<u>\$ 3,450,842</u>	

CITY OF EASTON
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust</u>
<u>Additions</u>		
<u>Contributions:</u>		
Employer	\$ 3,274,818	\$ -
Plan Members	458,359	-
Other Sources	6,197	290,000
	<u>3,739,374</u>	<u>290,000</u>
Total Contributions	<u>3,739,374</u>	<u>290,000</u>
<u>Investment Earnings:</u>		
Interest and Dividends	818,262	96,594
Net Increase in Fair Value of Investments	2,195,055	125,281
Net Realized Gain	-	207,704
	<u>3,013,317</u>	<u>429,579</u>
Total Investment Earnings	<u>3,013,317</u>	<u>429,579</u>
Less: Investment Expense	<u>242,909</u>	<u>15,707</u>
Net Investment Earnings	<u>2,770,408</u>	<u>413,872</u>
Total Net Additions	<u>6,509,782</u>	<u>703,872</u>
<u>Deductions</u>		
Benefits	4,340,601	-
Administrative Expenses	11,165	212,156
	<u>4,351,766</u>	<u>212,156</u>
Total Deductions	<u>4,351,766</u>	<u>212,156</u>
Changes in Net Assets	2,158,016	491,716
Net Position - Beginning	<u>\$ 36,125,993</u>	<u>\$ 2,959,126</u>
Net Position - Ending	<u>\$ 38,284,009</u>	<u>\$ 3,450,842</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the City are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Easton this includes general operations, public safety, highways, public works, and recreational activities.

The City of Easton is a municipal corporation governed by an elected seven member City Council. As required by generally accepted accounting principles, these financial statements are for the City of Easton (primary government) and organizations for which the primary government is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes.

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, 2013.

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, 2013.

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, 2013 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF NET POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2013

	<u>Easton Suburban Water Authority</u>	<u>Easton Parking Authority</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets	\$ 6,711,036	\$ 84,610	\$ 6,795,646
Non-current Assets	<u>96,604,758</u>	<u>560,574</u>	<u>97,165,332</u>
Total Assets	<u>\$ 103,315,794</u>	<u>\$ 645,184</u>	<u>\$ 103,960,978</u>
<u>LIABILITIES</u>			
Current Liabilities	\$ 2,994,908	\$ 35,874	\$ 3,030,782
Non-current, Long Term Debt	<u>32,573,458</u>	<u>594,350</u>	<u>33,167,808</u>
Total Liabilities	<u>35,568,366</u>	<u>630,224</u>	<u>36,198,590</u>
<u>NET POSITION</u>			
Invested in Capital Assets - Net of Related Debt	61,276,300	560,574	61,836,874
Unassigned	<u>6,471,128</u>	<u>(545,614)</u>	<u>5,925,514</u>
Total Net Position	<u>67,747,428</u>	<u>14,960</u>	<u>67,762,388</u>
Total Net Assets and Liabilities	<u>\$ 103,315,794</u>	<u>\$ 645,184</u>	<u>\$ 103,960,978</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

BUSINESS-TYPE ACTIVITIES (Contd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2013

	<u>Easton Suburban Water Authority</u>	<u>Easton Parking Authority</u>	<u>Total</u>
<u>Expenses</u>			
Parking related administrative and direct operating	\$ -	\$ 521,288	\$ 521,288
Water system related administrative and direct operating	8,728,339	-	8,728,339
Depreciation	<u>2,577,982</u>	<u>202,183</u>	<u>2,780,165</u>
Total Expenses	<u>11,306,321</u>	<u>723,471</u>	<u>12,029,792</u>
Parking Garage Revenues	-	679,716	679,716
Water System Revenues	<u>12,194,106</u>	<u>-</u>	<u>12,194,106</u>
Net Program Revenues	<u>887,785</u>	<u>(43,755)</u>	<u>844,030</u>
Non-Operating Revenues (Expenses)	(866,182)	-	(866,182)
Change in Net Position	21,603	(43,755)	(22,152)
Capital Value Provided by Developers	<u>270,913</u>	<u>-</u>	<u>270,913</u>
Beginning Net Position	<u>\$ 67,454,912</u>	<u>\$ 58,715</u>	<u>\$ 67,513,627</u>
Ending Net Position	<u>\$ 67,747,428</u>	<u>\$ 14,960</u>	<u>\$ 67,762,388</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, 2013 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	\$ <u>3,648,000</u>
<u>Liabilities</u>	
Notes Payable	<u>3,648,000</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, 2013

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	\$ <u>2,671,792</u>
<u>Disbursements</u>	
Note Payments:	
Interest	171,792
Principal	<u>2,500,000</u>
Total Disbursements	<u>2,671,792</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, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Basis of Presentation

Government-wide Financial Statements:

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

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, 2013

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, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes and Other Receivables

Taxes Receivable -

Real Estate Taxes	\$ 880,043
Per Capita Taxes	222,255
Earned Income and Real Estate Transfer Taxes	774,806
Total General Fund	<u>\$ 1,877,104</u>

Other Receivables

General Fund -

Utility Billings for Sewage, Water, and Refuse	\$ 3,121,911
Other receivables	102,680
Total General Fund	<u>\$ 3,224,591</u>

State Grants Fund -

Due from the Commonwealth of Pennsylvania	<u>\$ 1,413,657</u>
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Other Governmental Funds

Due from the Federal Government	\$ 21,153
Due on rents for the Alpha Building	2,338
Total Other Governmental Funds	<u>\$ 23,490</u>

Total Other Receivables	<u>\$ 4,661,738</u>
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CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Measurement Focus and Basis of Accounting (Contd.)

Property Taxes

Based upon assessed valuations by Northampton County, the City's real estate valuation for taxation purposes was \$350,906,500, the City's Department of Finance bills and collects the City's property taxes. The schedule for property taxes levied for year ended December 31, 2013 is as follows:

The municipal tax rate for all purposes in 2013 was 24.950 Mills.

General Purposes	15.807
Debt Purposes	6.683
Recreational Purposes	2.460
 Total Tax Rate	 24.950 Mills

Prior to March 6	2% discount period
March 7 to May 6	Base payment period
After May 6	Penalty period

Reconciliation of assessed 2013 Real Estate Taxes:

Taxes Levied based upon adjusted assessment	\$ 8,827,928
Add: Penalties	69,554
Less: Discounts	(124,374)
Cash Collections	(8,407,261)
Uncollected Balance as of December 31, 2013	\$ 365,847

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Capital Assets

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

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

Land is not depreciated. Property, plant, equipment, and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

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

Compensated Absences

The City's policies regarding vacation and sick time permit certain employees to accumulate earned but unused vacation and sick leave. The liability calculated by the City for these compensated absences which is recorded as a non-current liability in the government-wide financial statements amounts of \$2,268,417 in the General Fund and \$133,010 in the Sewer Fund. The current portion reported by the General Fund is \$11,701. 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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Fund Balance Classifications

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

Non-Spendable - includes amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be kept intact. The City's Non-Spendable fund balance consists of pre-paid assets.

Restricted - includes amounts that are restricted for specific purposes by constitutional provisions, enabling legislation, or externally imposed constraints. The City had no Restricted fund balance at year end.

Committed - includes amounts that can only be used for specific purposes with constraints that are established, and can only be removed, by formal action of City Council. All other Committed amounts are for the designated purposes of those funds.

Assigned - includes amounts that are constrained by the City, without use of Resolution or Ordinance. Amounts can be Assigned by someone other than City Council and are intended for a specific purpose, such as grant matching funds or maintenance of the Alpha Building. The City assigned \$300,000 as detailed in Note 14.

Unassigned - all other fund balances not in the other categories.

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

Fund Balance Policy

The City has adopted a Fund Balance Policy that states "the annual city budget prepared and adopted shall include a December 31 general fund balance that is a minimum of 10% of budgeted general fund revenues for that budget year." The target percentage is 15 percent of budget revenues. In addition, the policy states:

- a. The Health Care Fund should maintain a balance of at least \$3,000,000 by the end of the 2016 fiscal year.
- b. The Liability and Casualty Fund should maintain a balance of at least \$1,500,000 by the end of the 2016 fiscal year.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as estimates useful lives in determining depreciation expense, OPEB cost and contributions made, and earned income tax rate variance revenue estimates; accordingly, actual results could differ from those estimates.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 and the administration may make transfers of funds appropriated to any particular item of expenditure in accordance with the Third Class City Code and the City's Home Rule Charter. 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, 2013, the bank balance of the City's deposits with financial institutions was \$22,749,609 compared to the carrying amount of \$21,666,836. The difference is primarily caused by items in-transit and outstanding checks. \$21,499,609 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, 2013

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

Governmental and Business-Type Funds: (Contd.)

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.

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, 2013

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	\$ 413,992
Total Cash and Cash Equivalents	<u>\$ 413,992</u>
Mutual Funds (Fair Value)	
Corporate Bonds	\$ 1,121,739
Corporate Stocks	<u>1,915,111</u>
Total Investments	<u>\$ 3,036,850</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, 2013

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, 2013:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents:		
State and Municipal Interest Checking Account	\$ 457,687	\$ 457,687
UBS Cash Reserves	<u>807,423</u>	<u>807,423</u>
Total cash and cash equivalents	<u>\$ 1,265,110</u>	<u>\$ 1,265,110</u>
Investments:		
Equity securities	\$ 11,790,369	\$ 15,639,448
Fixed income securities:		
U.S. Treasury Notes	1,245,359	1,226,944
Corporate Bonds	9,960,839	9,846,305
Asset-Backed Securities	1,655,264	1,514,196
Mutual Funds	<u>8,131,359</u>	<u>8,671,285</u>
Total investments	<u>\$ 32,783,190</u>	<u>\$ 36,898,178</u>

Investment Risk Factors

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

Credit Risk

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Aggregated Pension Funds (Contd.)

Cash Deposits with Financial Institutions (Contd.)

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, 2013, the bank balance of the Plan's deposits with financial institutions including cash equivalents was \$1,267,455 compared to the carrying amount of \$1,265,110. The difference is primarily caused by outstanding checks. The Plan's deposits of \$1,017,455 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.

Interest Rate Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect deposits on an investment's fair value. The Plan has foreign currency risk through its investment in various foreign bonds and various foreign stocks. The Plan has no specific policy regarding exposure to foreign currency risk.

NOTE 4 DEFERRED INFLOWS OF RESOURCES

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated:			
Land, Easements, Rights of Way	\$ 7,672,373	\$ -	\$ 7,672,373
Capital Assets Depreciated:			
Land Improvements	1,028,774	-	1,028,774
Buildings & Improvements	11,359,586	(6,138,530)	5,221,056
Vehicles & Equipment	8,005,166	18,497	8,023,663
Infrastructure	1,694,225	273,495	1,967,720
Construction in Progress	192,705	3,369,489	3,562,194
Leased Water Plant Assets	20,590,352	-	20,590,352
Total Depreciated Capital Assets	<u>\$ 42,870,808</u>	<u>\$ (2,477,049)</u>	<u>\$ 40,393,759</u>
	<u>\$ 50,543,181</u>	<u>\$ (2,477,049)</u>	<u>\$ 48,066,132</u>
Less: Accumulated Depreciation:			
Land Improvements	\$ (849,025)	\$ (7,667)	\$ (856,693)
Buildings & Improvements	(4,698,002)	1,371,078	(3,326,924)
Vehicles & Equipment	(4,928,906)	(430,556)	(5,359,462)
Infrastructure	(759,615)	(73,896)	(833,511)
Leased Water Plant Assets	(12,668,832)	(411,807)	(13,080,639)
Total Accumulated Depreciation	<u>(23,904,380)</u>	<u>447,152</u>	<u>(23,457,229)</u>
Total Net Capital Assets	<u>\$ 26,638,801</u>	<u>\$ (2,029,897)</u>	<u>\$ 24,608,903</u>

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

Governmental Activities:	
General	\$ 264,240
Public Safety	402,104
Sanitation Activities	68,932
Highways & Roads	149,353
Other Public Services	68,932
Recreation	<u>195,307</u>
Total Depreciation Expense -	
Governmental Activities	<u>\$ 1,148,868</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable to:</u>	<u>Payable from:</u>		
Health Benefit Fund	General Fund	\$	1,509,991
Health Benefit Fund	Sewer Fund		172,526
Health Benefit Fund	Recreation Fund		67,778
Insurance Fund	General Fund		561,718
Insurance Fund	Sewer Fund		170,000
Insurance Fund	Alpha Building		57,448
Debt Service	General Fund		100,000
Tax-Exempt Project Fund	State Programs Fund		960,592
General Fund	Unemployment Compensation Fund		7,500
General Fund	Revolving Loan		608,663
General Fund	State Programs Fund		537,847
General Fund	Federal Programs Fund		9,620
General Fund	Debt Service Fund		914,000
General Fund	Miscellaneous Grant Fund		229,268

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

Interfund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>		
General Fund	Debt Service Fund	\$	1,920,339
Sewage Treatment Fund	Debt Service Fund		205,374
Recreation Fund	Debt Service Fund		91,685
			<u>2,217,398</u>

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2013.

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2013</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
Pension Debt	\$ 20,903,000	\$ -	\$ 844,000	\$ 20,059,000	\$ 900,000
Capital Debt	9,303,018	18,090,841	1,424,823	25,969,036	918,444
Lease Rental Debt	2,055,000	-	2,055,000	-	-
Capitalized Lease Debt	4,901,744	-	505,286	4,396,458	525,940
Post-Employment Benefits	4,221,552	838,926	-	5,060,478	Not Est.
Compensated Absences	<u>1,827,702</u>	<u>440,715</u>	<u>-</u>	<u>2,268,417</u>	<u>11,701</u>
Total Debt	<u>\$ 43,212,016</u>	<u>\$ 19,370,482</u>	<u>\$ 4,829,109</u>	<u>\$ 57,753,389</u>	<u>\$ 2,356,085</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 GENERAL LONG-TERM DEBT (Contd.)

<u>Type of Debt</u>	<u>Balance</u> <u>January 1,</u> <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December</u> <u>31, 2013</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
<u>Business-Type Activities:</u>					
Compensated Absences	\$ 135,712	\$ -	\$ (2,702)	\$ 133,010	\$ -
 <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.					\$ 11,869,000
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.					8,190,000
 <u>Capital Debt Obligations</u>					
General Obligation Note, Series of 2013, maturing through October 15, 2014, maximum principal amount of \$9,050,000. This Note is on a drawdown basis, interest will be charged only on amount of principal withdrawn, interest rate equal to 30-day LIBOR plus 75 basis points, not to exceed 12% per annum (not included in combined amortization schedule of City debt on p. 51)					960,592
General Obligation Bond, Series of 2011, maturing through November 15, 2026, maximum principal amount of \$7,715,000, bearing interest ranging from 2.00% to 4.05%, payable semi-annually on May 15 and November 15.					7,440,000
General Obligation Note of 2011, being used to finance projects that will be refunded through State Grants. This Note is on a drawdown basis (not included in the combined amortization schedule on p. 51)					648,444
General Obligation Bond, Series of 2013, maturing through December 31, 2027, maximum principal amount of \$1,920,000, bearing interest ranging from 2.00% to 4.05%, payable semi-annually on May 15 and November 15.					16,920,000
 <u>Other Financing Obligations</u>					
Master Lease Purchase Agreement, 2007, Public Finance Com, Inc. assigned to County Farmers National Bank, 180 monthly payments, final maturity April 15, 2022.					748,458
Lease Rental Debt, Easton Municipal Authority, 2010, TD Bank, maturing through February 15, 2020 bearing interest of 3.89%.					<u>3,648,000</u>
Total					<u>\$ 50,424,494</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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>
2014	1,695,939.80	2,254,137.30	\$ 3,950,077.10
2015	2,637,943.85	2,165,312.90	4,803,256.75
2016	2,755,089.01	2,045,793.79	4,800,882.80
2017	2,881,381.95	1,918,838.30	4,800,220.25
2018	3,005,829.61	1,794,558.29	4,800,387.90
2019	3,152,439.25	1,647,131.95	4,799,571.20
2020	3,297,218.48	1,503,003.52	4,800,222.00
2021	3,447,175.23	1,350,972.67	4,798,147.90
2022	3,659,441.42	1,187,697.18	4,847,138.60
2023	3,685,000.00	1,017,157.85	4,702,157.85
2024	3,864,000.00	837,755.23	4,701,755.23
2025	4,059,000.00	641,873.68	4,700,873.68
2026	4,290,000.00	311,857.00	4,601,857.00
2027	2,920,000.00	272,242.75	3,192,242.75
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>\$ 48,815,458.60</u>	<u>\$ 19,682,793.91</u>	<u>\$ 68,498,252.51</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 \$ 2,398,844

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	271,511
Public Safety	1,062,628
Health and Welfare	9,363
Sanitation	450,343
Highways	121,712
Other Public Works	93,623
Urban Development	14,044
Sewage Treatment Fund Transfer	<u>194,173</u>
Total Transfers	<u>\$ 2,217,397</u>
Interest Income	<u>\$ 2</u>
Total Source of Revenues	<u>\$ 4,616,243</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 15.

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, AVI, Inc., and the City of Easton was \$198,201. The City did contribute this amount to the Trust during the 2013 year. As of December 31, 2013, assets of the Trust Fund amounted to \$219,089. As presented in a Separate Financial Report available at the City's business office, the Trust assets are further designated in the amount of \$43,666 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., Great Western, and Valic are the managers of the plans and have reported the value of the Deferred Compensation Plan to be \$2,638, \$1,436,001, and \$3,864,461, respectively as of December 31, 2013.

NOTE 10 NET PENSION ASSET

The Governmental Accounting Standards Board provided interpretations for the presentation of Pension Obligation Bonds issued to reduce unfunded actuarial accrued liabilities of Defined Pension Plans to zero. The City of Easton has recognized the Bond Issue and the contribution to the Plan in the General Fund, in that the employer and pension plan are separate legal entities and the financial dealings between them should be considered external transactions. The City has shown a decrease in net assets equal to the original total debt obligation of the 1996 (now 2007) Pension Bonds of \$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 2013 was \$852,942, and the Net Pension Asset values were \$11,421,189 for the 1996 Bond Issue (refunded by the 2007 Pension Bond Issue) and \$7,964,981 for the 2005 Bond Issue.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013:

Active plan members	120
Retirees and beneficiaries currently receiving benefits	57
Terminated plan members entitled to but not yet receiving benefits	<u>3</u>
Total	<u><u>180</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, 2013

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.

The City's MMO of \$273,800 was paid in 2013.

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, 2013

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. The actuarial funding schedules contained in the required supplemental information of the separately issued report are also presented in additional disclosures in this report as part of other supplemental information. The separately issued 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 two 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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11 PENSION PLANS (Contd.)

AGGREGATED PENSION FUND (Contd.)

City of Easton Officers and Employees (Contd.)

Funding Policy - The authority under which obligations to the plan by the plan member, employer and other contributing entities are established and may be amended by PA Act 205 and Plan ordinances. Contributions can be provided by State Aid and Local Government or Employee Contributions. Active plan members are required to contribute 3.0% of compensate not covered by social security. Members who are covered shall contribute 6.5% of compensation in which social security taxes are payable and 5% on the excess. The City required contribution rate is in accordance with funding policy, in dollars or as a percentage of the current years covered payroll per the Minimum Municipal Obligation under PA Act 205, for the plan year ending December 31, 2013 the contribution was \$516,829.

Membership of the plan is as follows:

Active Members	5
Retirees and beneficiaries currently receiving benefits	84
Total	89

Annual Required Contribution

Actuarial assumptions and other information used to determine the annual required contribution (ARC) is located in the Supplementary Schedule of Funding Progress.

Actuarial Determined Contribution

Three Year
Trend Information

<u>Year</u>	<u>Actuarial Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency/ Surplus</u>
2011	\$ 164,399	\$ 164,399	\$ -
2012	157,440	157,440	-
2013	516,829	516,829	-

Funding Status

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2013	5,335,449	10,414,324	5,078,875	48.8%	51.2%	279,192	1819.1%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

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 two 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.

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, 2013 the contribution was \$1,073,904.

Membership of the plan is as follows:

Active Members	43
Retirees and beneficiaries currently receiving benefits	<u>47</u>
Total	<u><u>90</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11 PENSION PLANS (Contd.)

AGGREGATE PENSION FUND (Contd.)

City of Easton Firemen (Contd.)

Annual Required Contribution

Actuarial assumptions and other information used to determine the annual required contribution (ARC) is located in the Supplementary Schedule of Funding Progress.

Actuarial Determined Contribution

Three Year
Trend Information

<u>Year</u>	<u>Actuarial Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency/ Surplus</u>
2011	\$ 434,219	\$ 434,219	\$ -
2012	441,521	441,521	-
2013	1,073,904	1,073,904	-

Funding Status

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2013	14,988,351	24,115,633	9,127,282	37.8%	62.2%	2,791,992	326.9%

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 two 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, 2013

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, 2013 the contribution was \$1,684,085.

Membership of the plan is as follows:

Active Members	58	
Retirees and beneficiaries currently receiving benefits	76	
Total	134	

Annual Required Contribution

Actuarial assumptions and other information used to determine the annual required contribution (ARC) is located in the Supplementary Schedule of Funding Progress.

Actuarial Determined Contribution

**Three Year
Trend Information**

<u>Year</u>	<u>Actuarial Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency/ Surplus</u>
2011	\$ 843,933	\$ 843,933	\$ -
2012	761,291	761,291	-
2013	1,684,085	1,684,085	-

Funding Status

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2013	15,802,193	32,634,045	16,831,852	51.6%	48.4%	3,759,516	447.7%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013:

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

Benefit Provisions -

Police

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

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

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

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 12 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

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>Non-Uniform</u>	<u>Total</u>
Estimated Net Benefit Obligation at the beginning of the period	\$ 1,753,340	\$ 2,534,257	\$ (66,045)	\$ 4,221,552
Annual Benefit Cost:				
Annual Required Contribution (ARC)	\$ 587,775	636,791	9,660	1,234,226
Estimated Interest on Net NBO	78,900	114,042	(2,972)	189,970
Estimated Adjustments to ARC	<u>(107,640)</u>	<u>(155,582)</u>	<u>4,055</u>	<u>(259,167)</u>
Annual Benefit Obligation	\$ 559,035	\$ 595,251	\$ 10,743	1,165,029
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(174,745)</u>	<u>(133,431)</u>	<u>(17,927)</u>	<u>(326,103)</u>
Estimated Net Benefit Obligation at the end of year	<u>\$ 2,137,630</u>	<u>\$ 2,996,077</u>	<u>\$ (73,229)</u>	<u>\$ 5,060,478</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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. The City intends to create an OPEB fund in 2014.

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, 2013

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 ASSIGNED FUND BALANCE

The City has assigned a portion of the General Fund fund balance in the amount of \$300,000 as a funding source for future needs. The fund balance has been assigned for the following purposes:

Health Care Fund	\$ 150,000
Capital Projects Fund	100,000
OPEB Reserve	50,000
	<u>\$ 300,000</u>

NOTE 15 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 16 SUBSEQUENT EVENTS

On February 21, 2014 the City and the Easton Municipal Authority finalized issuance of Guaranteed Lease Revenue Note, Series 2014 in the amount of \$3,217,000. The Note was issued for the purpose of refunding the Guaranteed Lease Revenue Note, Series of 2010.

On June 14, 2014 the City finalized issuance of General Obligation Bond, Series of 2014 (Taxable) in the amount of \$662,444.42. The Bond was issued for the purpose of refunding the Taxable General Obligation Note, Series of 2011.

NOTE 17 ECONOMIC OPPORTUNITY ZONES

In partnership with the Commonwealth of Pennsylvania, the County of Northampton, and the Easton Area School District, the City of Easton is excited to offer two special programs to encourage community and economic development in various regions or zones throughout the City. The two current programs – the Keystone Opportunity Zone (KOZ) program and the Local Economic Revitalization Tax Assistance (LERTA) program are explained below.

Keystone Opportunity Zone

Several sites in Easton were recently designated part of a regional Keystone Opportunity Zone (KOZ) by the State of Pennsylvania. Unlike the NIZ and CRIZ programs in Allentown and Bethlehem, KOZs provide clear and tangible tax benefits directly to business owners and residents that reside in the zones. The KOZ status for these sites will expire in 2023.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 17 ECONOMIC OPPORTUNITY ZONES (Cont'd)

Keystone Opportunity Zone (Cont'd)

The tax benefit offered in a KOZ site depends on whether the taxpayer is a resident in the KOZ, owns and operates a business in the KOZ, and/or owns property in the KOZ as follows:

If your residence is in the KOZ – you are not required to pay State and local income taxes. The State's income tax is currently 3.07%, while Easton's Earned Income Tax is 1.75% (regardless of where you work). To be eligible for these benefits, your permanent resident must be in the KOZ for 184 consecutive days during a given calendar year.

If your business resides in the KOZ – the business is not required to pay State Corporate Net Income Tax, State Sales/Use Tax for items consumed in the KOZ, and a host of other State taxes. The business is also not required to pay Easton's Business Privilege Tax, which ranges from 0.1% to 0.25% of gross receipts (depending on business type). To be eligible for these benefits, the business must increase its full time employment by 20% in its first year in the KOZ, make a significant capital investment in the property, or enter into a lease agreement for the duration of the KOZ (or longer).

If you are a property in the KOZ – If you own property in a KOZ, you are not required to pay County, City, or Easton Area School District real estate taxes. To be eligible for these benefits, the property must stay compliant with tax and zoning requirements.

KOZ sites in the City of Easton include the Simon Silk Mill complex, the Easton City Hall and Transportation Center, the Governor Wolf Building, 118-120 Northampton Street, and a Silk Mill located in the South Side of Easton. For more information on the above sites, e-mail Gretchen Longenbach at glongenbach@easton-pa.gov.

Local Economic Revitalization Tax Assistance (LERTA) Program

The Local Economic Revitalization Tax Assistance (LERTA) program is designed to promote and provide incentives for property investment by granting partial tax abatement on improvements made to properties within a designated LERTA District. Senate Bill #305 of 1977 enables the establishment of LERTA Districts in the State of Pennsylvania.

Easton City Council passed an ordinance amending Chapter 531, Tax Abatements, of the Codes of the City of Easton, Pa. to define the terms of the LERTA, set the exemption amount and schedule, and provide a procedure for property owners to secure an exemption. The Easton Area School District Board and Northampton County Council passed similar ordinances allowing the re-establishment of the LERTA program in Easton.

Property owners of residential, commercial, industrial, or any other type of property located within the LERTA District are eligible for 10 year partial tax abatement on property tax increases which are a result of substantial property improvement and subsequent property reassessment by Northampton County.

Easton's LERTA District was established by City Council Resolution #66-2012. Information on LERTA District eligible properties is available at the Department of Planning & Codes on the 3rd floor of City Hall or online at www.easton-pa.gov in the forms and documents section of the Community and Economic Development tab.

For more information about the LERTA program, e-mail Gretchen Longenbach at glongenbach@easton-pa.gov.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 18 CHANGE IN ACCOUNTING PRINCIPLE

The City adopted the provision of Governmental Accounting Standards Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. The Standard reclassifies certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. Statement 65 also requires that debt issuance costs, which had been amortized over life of the bond, now be fully expensed in the year the debt issuance. In addition, all remaining issuance costs from prior debt issues are to be expensed in the year that Statement 65 is adopted. Therefore, beginning governmental activities net position has been adjusted from \$14,721,778 to \$14,415,353, a decrease of \$306,425.

NOTE 19 COMMITMENTS

Resolved that the Council of the City of Easton, Pa has reviewed and approved agreements with various contractors listed in the following summary for the construction of the Easton City Hall and Transportation Center at 123 South 3rd Street for the base amount of \$10,733,395, subject to adjustments and charge orders.

General Contractor	\$ 9,090,500
Plumbing	497,000
Electrical	829,895
HVAC	316,000
	<u>\$ 10,733,395</u>

The City of Easton and the Easton Parking Authority have entered into an agreement with J.G. Petrucci Company and Iron Hill Construction Management Company for construction manager services. The contract amounts were initially established at \$336,670 for the parking structure and \$628,300 for the building structure.

NOTE 20 MASTER LEASE AGREEMENT

Master Lease Agreement dated February 27, 2013, between the City of Easton and Easton Parking Authority. The City is the owner of a certain parcel of real estate known as 123 and 181 South Third Street, Easton. The Lehigh and Northampton Transportation Authority ("Lanta") is desirous of operating an intermodal transit passenger waiting and service area ("Transportation Center") on a portion of the Land. The City and Parking Authority will construct the Transportation Center on a portion of the Land and will include a parking garage and bus transfer facility that will be developed to meet the specifications to be mutually agreed upon by LANTA, the City and the Parking Authority. The City and the Parking Authority are entering into this Lease with respect to the portion of the Project constituting the parking garage and Transportation Center. LANTA desires to sublease a portion of the Leases Premises from the Parking Authority upon the terms and conditions more fully set forth in the Sublease.

The term of this Lease shall commence upon the date hereof and shall extend (unless earlier terminated as provided herein) through the date which is ninety-nine (99) years after the "Commencement Date" of the Sublease which is the date of the issuance of a Certificate of Occupancy for the LANTA Premises. The Parking Authority agrees to lease the Leases Premises and further agrees and covenants to pay the City, rent for the Leased Premises for the term set forth in the amount of \$1.00. In addition to Rent, the Parking Authority shall also pay all water, sewer, electric, heating, air conditioning, real estate taxes, if applicable, and all other utility charges for the Leased Premises, except to the extent such charges are paid by LANTA. The Parking Authority may, at its own expense, perform all routine maintenance of and repairs to the Leases Premises or request that the City perform such routine maintenance and repair items in accordance with any existing management or similar agreement between the parties.

REQUIRED
SUPPLEMENTARY INFORMATION

CITY OF EASTON
STATE ADMINISTERED PLANS
OFFICERS AND EMPLOYEES
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2013

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]
1/1/99	6,514,532	6,510,301	(4,231)	100.1%	3,891,161	-0.11%
1/1/01	7,291,569	7,355,904	64,335	99.1%	4,123,946	1.56%
1/1/03	8,212,390	8,090,645	(121,745)	101.5%	4,124,702	-2.95%
1/1/05	9,954,307	9,878,151	(76,156)	100.8%	4,731,205	-1.61%
1/1/07	11,527,336	11,492,295	(35,041)	100.3%	4,512,626	-0.78%
1/1/09	13,901,427	13,492,021	(409,406)	103.0%	5,211,617	-7.86%
1/1/11	15,965,646	15,590,694	(374,952)	102.4%	5,282,779	-7.10%

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

Year Ended December 31	Annual Required Contribution	Actuarial Valuation Basis for Contributions	Percentage Contributed
1998	\$ 305,472	1995	100%
1999	339,720	1997	100%
2000	331,411	1997	100%
2001	305,866	1999	100%
2002	306,221	1999	100%
2003	234,448	2001	100%
2004	257,694	2001	100%
2005	255,371	2003	100%
2006	265,623	2003	100%
2007	306,048	2005	100%
2008	311,022	2005	100%
2009	304,530	2007	100%
2010	345,618	2007	100%
2011	290,656	2009	100%
2012	288,585	2011	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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14.33 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	5.20%

CITY OF EASTON
STATE ADMINISTERED PLANS
OFFICERS AND EMPLOYEES
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2013

	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]
Non-Unit	1/1/2013	\$ 5,335,449	\$ 10,414,324	\$ 5,078,875	51.23%	\$ 279,192	1819.13%
Fire	1/1/2013	\$ 14,988,351	\$ 24,115,633	\$ 9,127,282	62.15%	\$ 2,791,992	326.91%
Police	1/1/2013	\$ 15,802,193	\$ 32,634,045	\$ 16,831,852	48.42%	\$ 3,759,516	447.71%
Total	1/1/2013	\$ 36,125,993	\$ 67,164,002	\$ 31,038,009	53.8%	\$ 6,830,700	193.32%

Significant Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2013
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	7.50%
Health Care Cost Trend Rate	9% in 2007, decreasing 5% per year
Projected salary Increases	5.00%

CITY OF EASTON
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2013

	Actualrial Valuation Date	Actuarial Value of Assets (a)	Actuarial Acrued Liability (AAL - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
Fire	1/1/2011	\$ -	\$ 5,857,160	\$ 5,857,160	0%	\$ 2,670,094	219.36%
	1/1/2007	\$ -	\$ 4,593,523	\$ 4,593,523	0%	\$ 2,500,399	183.71%
Police	1/1/2011	\$ -	\$ 5,374,465	\$ 5,374,465	0%	\$ 3,589,015	149.75%
	1/1/2007	\$ -	\$ 6,068,000	\$ 6,068,000	0%	\$ 3,014,487	201.29%
Non-Uniform Employees	1/1/2011	\$ -	\$ 157,349	\$ 157,349	0%	\$ -	N/A
	1/1/2007	\$ -	\$ -	\$ -	0%	\$ -	N/A
Total	1/1/2011	\$ -	\$ 11,388,974	\$ 11,388,974	0%	\$ 6,259,109	181.96%
	1/1/2007	\$ -	\$ 10,661,523	\$ 10,661,523	0%	\$ 5,514,886	193.32%

OTHER SUPPLEMENTARY INFORMATION

CITY OF EASTON
AGGREGATED PENSION FUND
ACTUARIAL FUNDING SCHEDULES
DECEMBER 31, 2013

Officers' and Employees' Retirement and Pension Schedule of Funding Progress

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2011	\$ 6,605,990	\$ 11,281,826	\$ 4,675,836	41.4%	58.6%	\$ 307,184	1522.2%
1/1/2012	5,977,341						
1/1/2013	5,335,449	10,414,324	5,078,875	48.8%	51.2%	279,192	1819.1%

Officers' and Employees' Retirement and Pension Schedule of Interest Rate Sensitivity Testing

<u>Interest Rate *</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>
6.50%	\$ 5,335,449	\$ 11,152,717	\$ 5,817,268	52.2%	47.8%
7.50%	5,335,449	10,414,324	5,078,875	48.8%	51.2%
8.50%	5,335,449	9,760,245	4,424,796	45.3%	54.7%

* Valuation interest rate is 7.50%

Officers' and Employees' Retirement and Pension Schedule of Changes to Unfunded Actuarial Accrued Liability (1)

Modification in Plan	\$ -
Changes in Actuarial Assumptions	(176,203)
2011 Investment (Gain)/Loss	(25,309)
2012 Investment (Gain)/Loss	(15,721)
Experience (Gain)/Loss	143,832

Officers' and Employees Retirement and Pension Schedule of Contributions from the Employer and Other Contributing Entities

<u>Year</u>	<u>Actuarially (2) Determined Contribution</u>	<u>Contributions (3) From Employer</u>	<u>Contribution Deficiency/ (Surplus)</u>
2003	\$ -	\$ -	
2004	-	-	
2005	-	-	
2006	51,594	51,594	\$ -
2007	58,255	58,255	-
2008	60,647	60,647	-
2009	54,537	54,537	-
2010	43,788	43,788	-
2011	164,399	164,399	-
2012	157,440	157,440	-

- (1) Determined on a market value basis
(2) Minimum Municipal Obligation under Act 205 of 1984
(3) Includes general municipal pension system State aid

CITY OF EASTON
AGGREGATED PENSION FUND
ACTUARIAL FUNDING SCHEDULES
DECEMBER 31, 2013

Firefighters' Pension Schedule of Funding Progress

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2011	\$ 13,994,515	\$ 22,975,675	\$ 8,981,160	39.1%	60.9%	\$ 2,546,424	352.7%
1/1/2012	14,441,104						
1/1/2013	14,988,351	24,115,633	9,127,282	37.8%	62.2%	2,791,992	326.9%

Firefighters' Pension Schedule of Interest Rate Sensitivity Testing

<u>Interest Rate *</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>
6.50%	\$ 14,988,351	\$ 26,989,720	\$ 12,001,369	44.5%	55.5%
7.50%	14,988,351	24,115,633	9,127,282	37.8%	62.2%
8.50%	14,988,351	21,685,087	6,696,736	30.9%	69.1%

* Valuation interest rate is 7.50%

Firefighters' Pension Schedule of Changes to Unfunded Actuarial Accrued Liability (1)

Modification in Plan	\$ -
Changes in Actuarial Assumptions	(673,212)
2011 Investment (Gain)/Loss	(124,096)
2012 Investment (Gain)/Loss	(145,821)
Experience (Gain)/Loss	(444,890)

Firefighters' Pension Schedule of Contributions from the Employer and Other Contributing Entities

<u>Year</u>	<u>Actuarially (2) Determined Contribution</u>	<u>Contributions (3) From Employer</u>	<u>Contribution Deficiency/ (Surplus)</u>
2006	\$ 300,816	\$ 300,816	\$ -
2007	286,227	286,227	-
2008	290,276	290,276	-
2009	405,504	405,504	-
2010	434,626	434,626	-
2011	434,219	434,219	-
2012	441,521	441,521	-

- (1) Determined on a market value basis
(2) Minimum Municipal Obligation under Act 205 of 1984
(3) Includes general municipal pension system State aid

CITY OF EASTON
AGGREGATED PENSION FUND
ACTUARIAL FUNDING SCHEDULES
DECEMBER 31, 2013

Police Pension Schedule of Funding Progress

<u>Valuation Date</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>	<u>Current Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1/1/2011	\$ 15,634,668	\$ 31,235,456	\$ 15,600,788	49.9%	50.1%	\$ 3,454,626	451.6%
1/1/2012	15,766,578						
1/1/2013	15,802,193	32,634,045	16,831,852	51.6%	48.4%	3,759,516	447.7%

Police Pension Schedule of Interest Rate Sensitivity Testing

<u>Interest Rate *</u>	<u>Market Value of Assets (a)</u>	<u>Entry Age Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Net Position as a % of Total Liability ((b - a)/b)</u>	<u>Funded Ratio (a/b)</u>
6.50%	\$ 15,802,193	\$ 36,255,965	\$ 20,453,772	56.4%	43.6%
7.50%	15,802,193	32,634,045	16,831,852	51.6%	48.4%
8.50%	15,802,193	28,861,988	13,059,795	45.2%	54.8%

* Valuation interest rate is 7.50%

Police Pension Schedule of Changes to Unfunded Actuarial Accrued Liability (1)

Modification in Plan	\$ -
Changes in Actuarial Assumptions	(958,435)
2011 Investment (Gain)/Loss	(129,609)
2012 Investment (Gain)/Loss	(139,881)
Experience (Gain)/Loss	509,694

Police Pension Schedule of Contributions from the Employer and Other Contributing Entities

<u>Year</u>	<u>Actuarially (2) Determined Contribution</u>	<u>Contributions (3) From Employer</u>	<u>Contribution Deficiency/ (Surplus)</u>
2006	\$ 454,129	\$ 454,129	\$ -
2007	410,195	410,195	-
2008	414,750	414,750	-
2009	500,537	500,579	(42)
2010	485,312	485,312	-
2011	843,933	843,934	(1)
2012	761,291	761,291	-

- (1) Determined on a market value basis
(2) Minimum Municipal Obligation under Act 205 of 1984
(3) Includes general municipal pension system State aid

CITY OF EASTON
AGGREGATED PENSION FUND
ACTUARIAL FUNDING SCHEDULES
DECEMBER 31, 2013

Discount Rate Determination

This discount rate is based on the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

CITY OF EASTON
SCHEDULE OF CAPITAL PROJECT FUNDS
DECEMBER 31, 2013

	TOTAL	Revolving Capital	Tax-Exempt Project Fund	2011 Bond Fund	2013 Bond Fund	Revolving Loan Fund
<u>Assets</u>						
Cash & Equivalents	\$ 12,928,166.73	\$ 657,931.25	\$ -	\$ 173,561.53	\$ 12,064,058.67	\$ 32,615.28
Due from Other Funds	960,592.00	-	960,592.00	-	-	-
Loan Receivable	537,833.61	-	-	-	-	537,833.61
Total Assets	\$ 14,426,592.34	\$ 657,931.25	\$ 960,592.00	\$ 173,561.53	\$ 12,064,058.67	\$ 570,448.89
<u>Liabilities & Fund Balance</u>						
Accounts Payable	\$ 1,875.00	\$ -	\$ -	\$ 1,875.00	\$ -	\$ -
Deferred Revenue	500,000.00	500,000.00	-	-	-	-
Due to General Fund	608,663.40	61,003.40	-	-	-	547,660.00
Other Liabilities	960,592.00	-	960,592.00	-	-	-
Fund Balance	12,355,461.94	96,927.85	-	171,686.53	12,064,058.67	22,788.89
Total Liab. & Fund Balance	\$ 14,426,592.34	\$ 657,931.25	\$ 960,592.00	\$ 173,561.53	\$ 12,064,058.67	\$ 570,448.89
<u>Revenues</u>						
Local Income	\$ 221,419.14	\$ 200,742.88	\$ -	\$ -	\$ 4,342.65	\$ 16,333.61
Bond Proceeds	16,920,000.00	-	-	-	16,920,000.00	-
Refund Prior Year	-	-	-	-	-	-
Total Revenues	17,141,419.14	200,742.88	-	-	16,924,342.65	16,333.61
<u>Expenditures</u>						
General -						
Equipment	\$ -	-	\$ -	\$ -	\$ -	\$ -
Buildings	3,575,990.58	-	-	13,797.00	3,562,193.58	-
Police	321,217.57	321,217.57	-	-	-	-
Fire	-	-	-	-	-	-
Highway-						
Equipment	74,303.87	-	-	74,303.87	-	-
Roads	14,124.48	-	-	14,124.48	-	-
Community Development	1,000,000.00	-	-	-	1,000,000.00	-
Fiscal Agent Fees	298,090.00	-	-	-	298,090.00	-
Total Expenditures	5,283,726.50	321,217.57	-	102,225.35	4,860,283.58	-
(Deficiency) Revenues (Under)						
Expenditures	11,857,692.64	(120,474.69)	-	(102,225.35)	12,064,059.07	16,333.61
Fund Balance Beginning of Year	\$ 497,769.70	\$ 217,402.54	\$ -	\$ 273,911.88	\$ -	\$ 6,455.28
Fund Balance End of Year	\$ 12,355,462.34	\$ 96,927.85	\$ -	\$ 171,686.53	\$ 12,064,059.07	\$ 22,788.89

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2013

	TOTAL	Liquid Fuels	Federal Grants	Police Property	Restlawn	Alpha Building	Recreation	Open Space	Donations Fund	Misc. Grant	Authority CDBG
Assets											
Cash & Equivalents	\$ 6,496,675.01	\$ 790,153.73	\$ 3,500.00	\$ -	\$ 30,457.96	\$ 4,079,769.38	\$ 214,363.24	\$ 129,021.53	\$ 12,064.71	\$ 1,237,344.46	\$ -
Other Assets	280,000.00	-	-	-	280,000.00	-	-	-	-	-	-
Other Receivables	23,490.29	-	21,152.67	-	-	2,337.62	-	-	-	-	-
Total Assets	\$ 6,800,165.30	\$ 790,153.73	\$ 24,652.67	\$ -	\$ 310,457.96	\$ 4,082,107.00	\$ 214,363.24	\$ 129,021.53	\$ 12,064.71	\$ 1,237,344.46	\$ -
Liabilities & Fund Balance											
Due to Other Funds	\$ 364,115.02	\$ -	\$ 9,620.18	\$ -	\$ -	\$ 57,448.34	\$ 67,778.21	\$ -	\$ -	\$ 229,268.29	\$ -
Accounts Payable	62,653.47	43,539.07	-	-	-	1,043.36	18,071.04	-	-	-	-
Other Liabilities	29,377.00	-	-	-	-	-	29,377.00	-	-	-	-
Fund Balance	6,344,019.81	746,614.66	15,032.49	-	310,457.96	4,023,615.30	99,136.99	129,021.53	12,064.71	1,008,076.17	-
Total Liab. & Fund Balance	\$ 6,800,165.30	\$ 790,153.73	\$ 24,652.67	\$ -	\$ 310,457.96	\$ 4,082,107.00	\$ 214,363.24	\$ 129,021.53	\$ 12,064.71	\$ 1,237,344.46	\$ -
Revenues											
Interest Income	\$ 28,505.70	\$ 627.01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,878.69	\$ -	\$ -
Local Income	7,281,831.63	1,160.00	-	-	-	4,000,000.00	97,364.34	33,307.29	-	3,150,000.00	-
Local Government	1,202,855.71	22,000.00	-	-	-	-	923,999.10	-	-	256,856.61	-
Rental Income	311,032.61	-	-	-	-	311,032.61	-	-	-	-	-
Recreation Charges	107,496.61	-	-	-	-	-	107,496.61	-	-	-	-
Federal-Community Development	1,209,083.37	-	50,236.74	-	-	-	-	-	-	-	1,158,846.63
Other Grants	665,817.00	665,817.00	-	-	-	-	-	-	-	-	-
State-Liquid Fuels	457,974.64	457,974.64	-	-	-	-	-	-	-	-	-
Total Revenues	11,264,597.27	1,147,578.65	50,236.74	-	-	4,311,032.61	1,128,860.05	33,307.29	27,878.69	3,406,856.61	1,158,846.63
Expenditures											
General-											
Buildings	2,539,072.68	\$ -	\$ -	\$ -	\$ 140,610.09	\$ 375,511.89	\$ -	\$ -	\$ -	\$ 2,022,950.70	\$ -
Public Safety-											
Fire	8,359.00	-	8,359.00	-	-	-	-	-	-	-	-
Police	5,478.38	-	3,515.25	1,963.13	-	-	-	-	-	-	-
Highways -											
Snow	78,685.86	78,685.86	-	-	-	-	-	-	-	-	-
Street Lighting	381,679.06	381,679.06	-	-	-	-	-	-	-	-	-
Recreation-											
Trees	371.17	-	-	-	-	-	-	-	-	371.17	-
Other	1,353,781.27	-	-	-	-	-	1,056,967.94	91,814.83	-	204,998.50	-
Communtiy Development-											
Urban	1,302,997.01	-	23,330.00	-	-	-	-	-	29,590.00	91,230.38	1,158,846.63
Fund Transfers	91,685.00	-	-	-	-	-	91,685.00	-	-	-	-
Total Expenditures	5,762,109.43	460,364.92	35,204.25	1,963.13	140,610.09	375,511.89	1,148,652.94	91,814.83	29,590.00	2,319,550.75	1,158,846.63
Excess Revenues Over/(Under) Expenditures	5,502,487.84	687,213.73	15,032.49	(1,963.13)	(140,610.09)	3,935,520.72	(19,792.89)	(58,507.54)	(1,711.31)	1,087,305.86	-
Fund Balance Beginning of Year	\$ 841,531.97	\$ 59,400.93	\$ -	\$ 1,963.13	\$ 451,068.05	\$ 88,094.58	\$ 118,929.88	\$ 187,529.07	\$ 13,776.02	\$ (79,229.69)	\$ -
Fund Balance End of Year	\$ 6,344,019.81	\$ 746,614.66	\$ 15,032.49	\$ -	\$ 310,457.96	\$ 4,023,615.30	\$ 99,136.99	\$ 129,021.53	\$ 12,064.71	\$ 1,008,076.17	\$ -