

CITY OF EASTON
EASTON, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2017

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

CITY OF EASTON
BASIC FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 15
<u>CITY-WIDE FINANCIAL STATEMENTS</u>	
Statement of Net Position	16
Statement of Activities	17
<u>FUND FINANCIAL STATEMENTS</u>	
Balance Sheet - Governmental Funds	18
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	20
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Net Position - Fiduciary Funds	25
Statement of Changes in Net Position - Fiduciary Funds	26
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	27
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	28
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	29
Notes to Financial Statements	30 - 79
Required Supplementary Information	
Schedules of Changes in Net Pension Liability - Officers' and Employees' Pension Plan	80 - 81
Schedules of Changes in Net Pension Liability - Firemens' Pension Plan	82 - 83
Schedules of Changes in Net Pension Liability - Police Pension Plan	84 - 85
Schedules of Changes in Net Pension Liability - PMRS Pension Plan	86 - 87
Schedule of Funding Progress - Other Post Employment Benefits	88
Other Supplemental Information - Combining Schedules	89
Schedule of Capital Project Funds	90
Schedule of Special Revenue Funds	
Report on Compliance and Internal Controls over Financial Reporting	91 - 92

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

CARL E. FLEMING, C.P.A.
KEITH E. FLEMING, C.P.A.

SCOTT R. FLEMING

ELLSWORTH C. PALMER, C.P.A., R.M.A.
(*Founder 1937-1965*)

TELEPHONE (610) 258-0401

FAX (610) 252-9040

E-Mail: office@palmerandcompany.net

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of Council
City of Easton
Easton, Pennsylvania 18042

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, 2017, 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, 2017, 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 on pages 3-15, and schedules of changes in Net Pension Liability, City contributions and Funding Progress on pages 80-88 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.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, 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
September 28, 2018

Palmer and Company

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

INTRODUCTION

This Management Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Easton (City) for the year ended December 31, 2017. 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, 2017. 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

Within the City-wide financial statements the governmental net position increased by \$338,508 after current changes in net position.

The City's overall financial position, as reflected in total net position, dramatically declined in the prior year as a result of GASB 68, which required governmental entities to recognize unfunded Pension liabilities. The Statement and its component statement No. 67 have a massive impact on all governments entity wide statements. It affects every government in the Commonwealth of PA and every other government located in all 50 states, including state governments.

In 2017, the City continued its strong financial performance within the fund financial statements which highlight this performance. For your convenience and information, the management of the City provides these financial highlights and executive summary:

- ***Twelfth Consecutive General Fund Surplus*** – The City is pleased to report its twelfth consecutive General Fund surplus (fiscal year 2006 through fiscal year 2017). The City's surplus from operating activities was \$296,234 in 2017. The City administration did not have a necessity to appropriate from the fund balance an amount of funds as a funding source for the 2018 budget.
- ***Adopted Fund Balance Policy*** – In December 2011, the City Council adopted a financial policy to achieve certain fund balances by December 2016. In 2017, 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 2017 or \$3.54 million using the 2017 budget for reference. As of December 31, 2017, the City had a General Fund unassigned balance of \$5.29 million, which is above the minimum goal of the target date year of 2017.
 - 2) ***Minimum Health Care Fund Balance*** – Achieve “Should maintain a balance of \$3.00 million” by year end 2017, as of December 31, 2017, the Health Care Fund had a balance of \$.15 million. The City of Easton is considering an assignment of \$257,455 of the General Fund surplus, in addition to budgeted allocations for the year 2018, bringing the balance up to \$.41M, or 14% of the minimum goal. The City is seeing better than anticipated claims experience which should also positively impact this Fund.

- 3) *Minimum Liability and Casualty Fund Balance* – “Should maintain a balance of \$1.00 million” by 2017 As of December 31, 2017, the City had a Liability and Casualty Fund balance of \$.961 million, which is 96% of the minimum goal. The City of Easton is considering an assignment of \$38,779 of the General Fund surplus, in addition to budgeted allocations for the year 2018, bringing the balance up to \$1M, or 100% 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.

City of Easton, Pennsylvania
 Management's Discussion and Analysis

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

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

Government-wide Statements		Fund Financial Statements		
		Governmental	Business-type	Fiduciary
Scope	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the City, such as public safety and public works	The business-type activities of the City	Instances in which the City administers resources on behalf of others, such as the employee pension plans
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance sheet Statement of Revenues, Expenditures, and Changes in Fund Balance 	<ul style="list-style-type: none"> Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows 	<ul style="list-style-type: none"> Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
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

City of Easton, Pennsylvania
Management's Discussion and Analysis

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 investment in capital assets
 - Restricted net position are those net assets 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 position 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

City of Easton, Pennsylvania
Management's Discussion and Analysis

governmental funds are General, Debt Service, Liquid Fuels, 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 and deferred outflow of resources were \$95.68 million at December 31, 2017. Of this amount, \$63.43 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 2017 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	
	2016	2017	2016	2017	2016	2017
Current Assets	\$16,735,543	\$24,076,649	\$683,345	\$687,978	\$17,418,888	\$24,764,627
Capital assets, net	49,947,239	63,430,606	-	-	49,947,239	63,430,606
Deferred Outflow of Resources	4,257,934	7,487,003	-	-	4,257,934	7,487,003
Total Assets/Deferred Outflows	70,940,716	94,994,258	683,345	687,978	71,624,061	95,682,236
Current and other liabilities	7,325,013	10,855,461	-	-	7,962,603	10,855,461
Non-current liabilities	86,625,081	103,377,453	-	-	86,625,081	103,377,453
Deferred Inflow of Resources	715,069	4,147,283	-	-	715,069	4,147,283
Total Liabilities/Deferred Inflows	94,665,163	118,380,197	637,590	642,223	95,302,753	118,380,197
Net position: Net investment in capital assets	17,094,104	16,060,619	-	-	17,094,104	16,060,619
Restricted net assets	3,906,487	8,100,941	-	-	3,906,487	8,100,941
Unrestricted net assets	(44,725,038)	(47,547,499)	45,755	45,755	(44,679,283)	(47,501,744)
Total net position	(23,724,447)	(23,385,939)	45,755	45,755	(23,678,692)	(23,340,184)

City of Easton, Pennsylvania
Management's Discussion and Analysis

Table A-3: Changes in net position

The following statement of activities represents changes in net assets for the year ended December 31, 2017. 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	
	2016	2017	2016	2017	2016	2017
Program revenues:						
Charges for services	\$15,067,882	\$15,257,903	\$5,095,832	\$5,281,087	\$20,163,714	\$20,538,990
Operating grants and contributions	5,454,769	6,184,263	82,384	93,617	5,537,153	6,277,880
Capital grants	2,296,351	1,703,551	-	-	2,296,351	1,703,551
General revenues:						
Taxes	18,636,471	18,822,412	-	-	18,636,471	18,822,412
Interest earnings	25,047	33,756	-	-	25,047	33,756
Misc. revenues	422,312	197,895	-	-	422,312	197,895
Total revenues	41,902,832	42,199,780	5,178,216	5,374,704	47,081,048	47,574,484
Expenses:						
General government	8,060,433	8,277,075	-	-	8,060,433	8,277,075
Public safety	18,872,987	19,778,218	-	-	18,872,987	19,778,218
Health & Welfare	116,832	114,395	-	-	116,832	114,395
DPW – Sanitation	4,965,228	5,116,764	-	-	4,965,228	5,116,764
DPW – Highways	2,553,714	2,747,637	-	-	2,553,714	2,747,637
Other Public Works	470,954	410,807	-	-	470,954	410,807
Culture – Recreation	2,119,925	2,157,127	-	-	2,119,925	2,157,127
Community Development	1,710,803	1,512,611	-	-	1,710,803	1,512,611
Debt Service	1,954,749	1,970,974	-	-	1,954,749	1,970,974
Sewage Treatment	-	-	5,005,583	5,210,138	5,005,583	5,210,138
Total expenses	40,825,625	42,085,608	5,005,583	5,210,138	45,831,208	47,295,746
Change in net position before transfers/special items						
	1,077,207	114,172	172,633	164,566	1,249,840	278,738
Transfers	172,633	164,566	(172,633)	(164,566)	-	-
Sale of Assets	1,446	59,770	-	-	1,446	59,770
Capital State Grants for Capital Value Increase	1,464,883	-	-	-	1,464,883	-
Change in net position	2,716,169	338,508	-	-	2,716,169	338,508
Net position, beginning	(26,440,616)	(23,724,447)	45,755	45,755	(26,394,861)	(23,678,692)
Net position, ending	(23,724,447)	(23,385,939)	45,755	45,755	(23,678,692)	(23,340,184)

Total government-wide revenues of \$47.63 million came primarily from taxes, charges for services and grants of \$47.34 million representing 99.41% of the total.

City of Easton, Pennsylvania
Management's Discussion and Analysis

Total expenses for all programs in 2017 were \$47.30 million. The expenses cover a range of services, with the largest two being public safety at \$19.78 million or 42% and general government at \$8.28 million or 18%.

Capital Assets

The City's investment in capital assets at December 31, 2017, net of accumulated depreciation, was \$63.43 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, 2016 and 2017.

Table A-4: Capital assets at December 31, 2016 and 2017

	Governmental Activities	
	2016	2017
Land (Not Depreciated)	\$7,672,373	\$13,648,117
Site Improvements	183,727	172,462
Buildings & Improvements	31,102,013	38,355,080
Machinery & Equipment	2,973,118	3,473,731
Infrastructure	1,741,716	1,918,731
Water Treatment Plant	6,274,292	5,862,485
Total Capital Assets (net of depreciation)	49,947,239	63,430,606

The change in capital assets was significant between 2016 and 2017. Most of that change is related to the buildings and improvements of the new Easton City Hall and Transportation Center placed into operation during the year 2017 and major costs including design related to the sanitation and road systems.

Long-term Debt

At December 31, 2017, the City had \$64.61 million of debt outstanding, including bonds, notes, and master lease purchase agreements. This was a net increase of \$13.71 million from the previous year. Other obligations include post-employment benefits, accrued vacation pay and sick leave and the net pension liability. Total other obligations were \$41.62 million at December 31, 2016 and \$41.93 million at December 31, 2017.

Additional information on the City's long-term debt can be found in the disclosures to the financial statements on page 49.

City of Easton, Pennsylvania
 Management's Discussion and Analysis

Table A-5: Summary of outstanding debt

	Governmental Activities	
	2016	2017
<i>Pension Debt Obligations</i>		
Bond Series of 2007	\$9,729,000	\$8,925,000
Bond Series A of 2015	8,320,000	8,315,000
<i>Capital Debt Obligations</i>		
Bond Series of 2011	4,885,000	-
Note Series of 2015 (Lafayette Ambassador Bank)	2,837,727	-
Taxable Note of 2014	524,435	451,263
Bond Series of 2013	16,900,000	16,875,000
Series B of 2015	685,000	605,000
Series C of 2015	3,855,000	3,765,000
Series A of 2017	-	12,755,000
Series B of 2017	-	1,530,000
Series C of 2017	-	2,355,000
Series D of 2017	-	6,500,000
<i>Other Debt Obligations</i>		
Master Lease Purchase Agreement 2009	534,628	451,564
EMA Note Series of 2014 Quakertown National Bank	2,191,000	1,662,000
Lease Purchase Agreement 2015 Fulton Bank	245,000	177,135
Lease Purchase Agreement 2015 TCF	100,714	34,064
Lease Purchase Agreement 2016 TCF	94,631	47,990
Lease Purchase Agreement 2017 TCF	-	160,971
Total Outstanding Debt	<u>\$50,902,135</u>	<u>\$64,609,987</u>

Bond Rating

As a part of the 2017 GO Bond Issue, the City of Easton had its credit rating reviewed by S&P Rating Services. Citing continued strong financial management practices, Easton's credit rating is 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

City of Easton, Pennsylvania
 Management's Discussion and Analysis

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.

Total Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2016 and 2017 were as follows. Table A-6 also presents changes from 2016 to 2017.

Table A-6: Revenues by source, total governmental funds

	2016	2017	Changes from 2016 to 2017	Percent change
Revenues:				
Taxes	\$18,641,150	\$18,751,051	\$109,901	1
Licenses	491,510	522,941	31,431	6
Fines & Forfeits	1,055,839	975,526	(80,313)	(7)
Interest & Rents	1,662,724	1,779,724	117,000	7
Intergovernmental	9,216,003	7,887,814	(1,328,189)	(14)
Charges for Services	11,937,244	12,130,755	193,511	2
Miscellaneous	422,312	197,895	(224,417)	(53)
Total revenues	\$43,426,782	\$42,245,706	\$(1,181,076)	

Governmental fund revenues totaled \$42.25 million for the year ended December 31, 2017. This is a (decrease) from 2016, primarily due to moderate increases in taxes, intergovernmental and charges for services resulting from a decrease in grant funding of \$1,100,000 and other governmental sources of \$200,000.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2016 and 2017 were as follows. Table A-7 also presents changes from 2016 to 2017.

Table A-7: Expenditures by function, total governmental funds

	2016	2017	Changes from 2016 to 2017	Percent change
Expenses:				
General Government	\$8,341,433	\$7,335,272	\$(1,006,161)	(12)
Public Safety	18,383,872	27,662,353	9,278,481	50
Health & Welfare	116,832	114,395	(2,437)	(2)
DPW – Sanitation	5,400,161	5,213,603	(186,558)	(3)
DPW – Roads	2,872,675	2,801,698	(70,977)	(2)
DPW – Other	408,044	348,996	(59,048)	(14)
Culture – Recreation	1,918,246	1,909,880	(8,366)	-
Urban Development	1,714,501	7,543,510	5,829,009	339
Debt Service	4,898,305	8,582,217	3,683,912	75
Total expenses	44,054,069	61,511,924	17,457,855	

City of Easton, Pennsylvania
Management's Discussion and Analysis

Governmental fund expenditures totaled \$61.51 million for the year ended December 31, 2017, an increase of 39.62% from 2016. The increase in 2017 expenditures is largely explained by the increase capital costs incurred with the construction of the new Police Headquarters Building, acquisition of land, purchase of fire truck and capitalization of refunding debt.

Governmental fund balances and proprietary/internal net assets

Table A-8 reflects ending balances for governmental funds and net assets for proprietary funds at December 31, 2017 and 2016.

**Table A-8: Ending fund balances, governmental funds
Net assets, proprietary/internal funds**

	2016		2017	
	Governmental funds	Proprietary/internal funds	Governmental funds	Proprietary/internal funds
General	\$5,287,128	-	\$5,583,362	-
Debt Service	119,375	-	106,574	-
Capital Projects	392,028	-	4,381,669	-
State Grants	2,505,824	-	2,510,644	-
Other	829,635	-	819,994	-
Governmental				
Health	-	\$171,830	-	\$155,648
Insurance	-	1,135,986	-	961,221
Unemployment	-	73,840	-	91,759
Sewer	-	45,755	-	45,755
Total	\$9,133,990	\$1,427,411	13,402,243	1,254,383

The City's governmental funds reported a combined fund balance of \$13.40 million at December 31, 2017. The City's proprietary/internal funds reported a combined fund balance of \$1.25 million at December 31, 2017.

In 2017, \$5.58 million (or 41.66%) of all governmental fund balances was recorded as unassigned. The balance sheet for government funds provides a breakdown for all fund balances as required by GASB 54.

Budgetary highlights

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

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

Collective Bargaining Issues

During the course of 2017, multi-year agreements were negotiated with two of the three labor unions: Fraternal Order of Police (FOP) Lodge 17 and American Federation of State County and Municipal Employees Local 447; the City and International Association of Fire Fighters (IAFF) Local 713 are in arbitration at the time of this report with a decision expected in late 2018. The new FOP Lodge 17 contract ends on December 31, 2020. The contract with AFSCME Local 447 was also renegotiated in 2017 and the new contract ends on December 31, 2021. The expired contract with IAFF Local 713 ended on December 31, 2016.

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, town to gown connections with the prestigious Lafayette College plus the new addition of Northampton Community College, and diverse culture and various 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 the many festivals and events that are supported by the City and the Greater Easton Development Authority. The combination of these events and diverse restaurant scene has created a welcoming environment into evenings during the week and weekends.

The City of Easton has invested significant dollars in public funding to spur economic growth and activity from the private sector. These public dollars (\$70M) has leveraged over \$500M of private sector investment and stimulus to the City. While the private sector has done a significant amount of investing, including the recently announced addition of Hearst Publishing to a long unutilized space downtown, the public sector continues to support the City's growth and to that end, has recently committed to the development of a \$150M science center. Adding this to the Crayola Experience and other unique outdoor and family based attractions, Easton will continue to grow as the playground for not only the residents of Easton, but the broader Lehigh Valley and New Jersey.

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 City Administrator, City of Easton, 123 South Third Street, Easton, Pennsylvania, 18042.

CITY OF EASTON
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Current Assets:				
Cash and Cash Equivalents	\$ 14,500,588	\$ 687,978	\$ 15,188,566	\$ 3,989,063
Investments	-	-	-	1,233,588
Taxes Receivable (net)	3,278,565	-	3,278,565	-
Due From Other Governments	3,458,667	-	3,458,667	14,513
Other Receivables	2,529,841	-	2,529,841	2,903,121
Prepaid Items	-	-	-	86,449
Inventory	-	-	-	847,916
Other Assets	308,988	-	308,988	-
Total Current Assets	24,076,649	687,978	24,764,627	9,074,650
Non-Current Assets:				
Lease Agreement net of amortization	-	-	-	560,000
Capital Assets not being depreciated:				
Land, Easements	13,648,117	-	13,648,117	498,075
Capital Assets net of accumulated depreciation:				
Site Improvements	172,462	-	172,462	-
Buildings and Building Improvements	38,355,080	-	38,355,080	2,774,615
Machinery and Equipment	3,473,731	-	3,473,731	2,079,950
Infrastructure	1,918,731	-	1,918,731	81,157,665
Water Treatment Plant	5,862,485	-	5,862,485	17,656,368
Total Non-Current Assets	63,430,606	-	63,430,606	104,726,673
Total Assets	\$ 87,507,255	\$ 687,978	\$ 88,195,233	\$ 113,801,323
Deferred Outflow of Resources:				
Current Year Contributions PMRS	446,855	-	446,855	-
Difference between Projected and Actual				
Investment Earnings on Pension Plan	1,994,356	-	1,994,356	-
Difference between Expected and Actual				
Experience Pensions	562,736	-	562,736	-
Change in Assumptions	4,191,055	-	4,191,055	-
Deferred Charges on Refundings	292,001	-	292,001	-
Total Assets and Deferred Outflow of Resources	\$ 94,994,258	\$ 687,978	\$ 95,682,236	\$ 113,801,323
Current Liabilities:				
Accounts Payable	\$ 6,977,981	\$ 107,347	\$ 7,085,328	\$ 617,773
Payroll Withholdings	58,278	-	58,278	-
Internal Balances	(191,107)	191,107	-	-
Current Portion of Debt	3,170,054	130,105	3,300,159	2,015,745
Accrued Salaries and Benefits	87,989	2,012	90,001	150,278
Other Current Liabilities	417,524	211,652	629,176	865,989
Accrued Interest Payable	334,742	-	334,742	72,892
Total Current Liabilities	10,855,461	642,223	11,497,684	3,722,677
Non-Current Liabilities:				
Bonds Payable	59,722,009	-	59,722,009	29,281,171
Capital Leases	1,717,924	-	1,717,924	-
Compensated Absences	2,134,202	-	2,134,202	-
Other Post-Employment Benefits	7,542,065	-	7,542,065	-
Net Pension Liability	32,261,253	-	32,261,253	-
Total Non-Current Liabilities	103,377,453	-	103,377,453	29,281,171
Total Liabilities	114,232,914	642,223	114,875,137	33,003,848
Deferred Inflow of Resources:				
Change in Assumptions	222,938	-	222,938	-
Difference between Projected and Actual				
Investment Earnings on Pension Plans	3,201,507	-	3,201,507	-
Difference between Expected and Actual				
Experience Pensions	722,838	-	722,838	-
Total Liabilities and Deferred Inflow of Resources	\$ 118,380,197	\$ 642,223	\$ 119,022,420	\$ 33,003,848
Net Position:				
Net Investment in Capital Assets	16,060,619	-	16,060,619	73,367,507
Restricted for Acquisition of Capital Assets	4,381,669	-	4,381,669	-
Restricted for State and Federal Provisions	2,510,644	-	2,510,644	-
Restricted for Insurance	1,208,628	-	1,208,628	-
Unrestricted (Deficit)	(47,547,499)	45,755	(47,501,744)	7,429,968
Total Net Position	(23,385,939)	45,755	(23,340,184)	80,797,475
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 94,994,258	\$ 687,978	\$ 95,682,236	\$ 113,801,323

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

CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Revenues			Net (Expense)/Revenue and Changes in Net Position		
	Expenses	Charges for Services		Capital Grants and Contributions	Governmental Activities	Business-Type Activities
		Operating Grants and Contributions	Capital Grants and Contributions			Total
Governmental Activities						
General Government	\$ (8,277,075)	\$ 2,447,342	\$ 3,516,970	\$ 194,181	\$ (2,118,582)	\$ -
(19,778,218)	2,394,228	791,435	407,715	(16,184,840)	(16,184,840)	-
(114,395)	91,402	-	-	(22,993)	(22,993)	-
(5,116,764)	8,945,197	337,180	40,000	4,205,613	4,205,613	-
(2,747,637)	54,940	702,320	170,193	(1,820,184)	(1,820,184)	-
(410,807)	1,091,355	-	6,186	686,734	686,734	-
(2,157,127)	233,439	43,747	642,488	(1,237,453)	(1,237,453)	-
(1,512,611)	-	785,336	242,788	(484,487)	(484,487)	-
(1,970,974)	-	7,275	-	(1,963,699)	(1,963,699)	-
Total Governmental Activities	\$ (42,085,608)	\$ 15,257,903	\$ 6,184,263	\$ 1,703,551	\$ (18,939,891)	\$ -
Business-Type Activities						
Sewage Treatment Plant Operations	\$ (5,210,138)	\$ 5,281,087	\$ 93,617	\$ (18,939,891)	\$ 164,566	\$ 164,566
Total Primary Government	\$ (47,295,746)	\$ 20,538,990	\$ 6,277,880	\$ 1,703,551	\$ 164,566	\$ (18,775,325)
Component Units						
Water and Parking Authorities	\$ (14,077,923)	\$ 16,121,688	\$ -	\$ -	\$ -	\$ 2,043,765
General Revenues:						
Property and Other Taxes	\$ 18,822,412	\$ -	\$ -	\$ 18,822,412	\$ -	\$ -
Unrestricted Interest Earnings	33,756	-	-	33,756	33,756	12,936
Interfund Transfers	164,566	(164,566)	-	-	-	-
Sale of Assets	59,770	-	-	59,770	59,770	-
Miscellaneous	197,895	-	-	197,895	197,895	-
Total General Revenues	\$ 19,278,399	\$ (164,566)	\$ (164,566)	\$ 19,113,833	\$ 19,113,833	\$ 12,936
Changes in Net Position	\$ 338,508	\$ -	\$ -	\$ 338,508	\$ 338,508	\$ 2,056,701
Capital Value Provided by Developers	-	-	-	-	-	1,675,530
Net Position - Beginning	\$ (23,724,447)	\$ 45,755	\$ (23,678,692)	\$ 77,065,244	\$ 77,065,244	\$ 77,065,244
Net Position - Ending	\$ (23,385,939)	\$ 45,755	\$ (23,340,184)	\$ 80,797,475	\$ 80,797,475	\$ 80,797,475

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Debt Service Fund	Liquid Fuels Fund	Capital Project Funds	Major Grant Funds	Other Government Funds	Total Governmental Funds
<u>Assets</u>							
Cash and Cash Equivalents	\$ 3,034,439	\$ 26,157	\$ 2,155,825	\$ 6,538,669	\$ 1,483,785	\$ 747,450	\$ 13,986,325
Taxes Receivable	3,278,565	-	-	270,698	2,811,769	-	3,278,565
Intergovernmental Receivables	376,200	-	-	-	-	-	3,458,667
Other Receivables	2,529,841	-	-	-	-	-	2,529,841
Other Assets	3,464	-	-	-	10,496	295,028	308,988
Due from Other Funds	8,359,489	100,000	21,045	9,427,921	1,490,013	112,998	19,511,466
Total Assets	\$ 17,581,998	\$ 126,157	\$ 2,176,870	\$ 16,237,288	\$ 5,796,063	\$ 1,155,476	\$ 43,073,852
<u>Liabilities and Deferred Inflow of Resources</u>							
<u>Liabilities:</u>							
Due to Other Funds	\$ 9,358,347	\$ 19,583	\$ 22,965	\$ 5,871,426	\$ 5,281,311	\$ 294,554	\$ 20,848,186
Accounts Payable	103,198	-	36,227	5,934,193	-	20,901	6,144,519
Payroll Withholdings	58,278	-	-	-	-	-	58,278
Accrued Salaries and Benefits	86,764	-	-	-	-	1,225	87,989
Other Current Liabilities	276,936	-	-	-	121,786	18,802	417,524
Total Liabilities	9,883,523	19,583	59,192	11,835,619	5,403,097	335,482	27,556,496
<u>Deferred Inflow of Resources</u>							
Unavailable Revenue -							
Property Taxes	1,471,113	-	-	-	-	-	1,471,113
Utility Billings	644,000	-	-	-	-	-	644,000
Total Liabilities and Deferred Inflow of Resources	11,998,636	19,583	59,192	11,835,619	5,403,097	335,482	29,671,609
<u>Fund Balances:</u>							
Non-Spendable	-	-	2,117,678	4,381,669	392,966	-	-
Restricted	-	106,574	-	-	-	819,994	6,892,313
Committed	-	-	-	-	-	-	926,568
Unassigned	5,583,362	-	-	-	-	-	5,583,362
Total Fund Balances	5,583,362	106,574	2,117,678	4,381,669	392,966	819,994	13,402,243
Total Liabilities and Fund Balances	\$ 17,581,998	\$ 126,157	\$ 2,176,870	\$ 16,237,288	\$ 5,796,063	\$ 1,155,476	\$ 43,073,852

CITY OF EASTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017

Amounts reported for governmental activities in the statement of net position (page 16) are different because:

Total fund balances - governmental funds (page 18)	\$ 13,402,243
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 \$92,721,507 and the accumulated depreciation is \$29,290,291.	63,430,606
Property taxes, utility charges, and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.	2,115,113
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The net position has been included in governmental activities.	1,208,628
This represents deferred Outflow of Resources resulting in deferred charges on refunding bond issues.	292,001
Deferred Outflow of Resources related to pensions are applicable to future periods therefore are not reported in the funds.	
Current year pension contributions to PMRS	446,855
Difference between projected and actual investment earnings on	
Pension Plan Investments	1,994,356
Difference between expected and actual experience	562,736
Change in Assumptions	4,191,055
Deferred Inflow of Resources related to pensions and debt are applicable to future periods, therefore, are not reported in the funds.	
Difference between expected and actual experience	(722,838)
Difference between expected and actual investment earnings on Pension Plan Investments	(3,201,507)
Change in Assumptions	(222,938)
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:	
Lease, Pension, Capital Debt Principal Payable	64,609,987
Accrued Interest Expense	334,742
Compensated Absences	2,134,202
Post Employment Benefits	7,542,065
Net Pension Liability	32,261,253
	<u>(106,882,249)</u>
Total Net Position - Governmental Activities	<u><u>\$ (23,385,939)</u></u>

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Debt Service Fund	Liquid Fuels Fund	Capital Project Funds	Major Grant Funds	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 14,686,551	2,997,244	\$ -	\$ -	\$ -	\$ 1,067,256	\$ 18,751,051
Licenses and Permits	522,941	-	-	-	-	-	522,941
Fines and Forfeits	975,526	-	-	-	-	-	975,526
Interest and Rents	1,654,454	-	1,961	10,244	33,633	79,432	1,779,724
Intergovernmental	4,683,049	7,275	702,320	284,649	1,228,400	982,121	7,887,814
Charges for Service	11,730,528	-	-	102,500	-	297,727	12,130,755
Miscellaneous	189,570	-	-	-	-	8,325	197,895
Total Revenues	34,442,619	3,004,519	704,281	397,393	1,262,033	2,434,861	42,245,706
Expenditures:							
General Government	6,576,996	-	-	420,286	180,233	157,757	7,335,272
Public Safety	18,559,032	-	-	8,809,371	99,367	194,583	27,662,353
Health and Welfare	114,395	-	-	-	-	-	114,395
Public Works - Sanitation	5,066,199	-	-	107,404	40,000	-	5,213,603
Public Works - Roads	1,680,734	-	889,541	214,086	17,337	-	2,801,698
Public Works - Other	342,810	-	-	-	6,186	-	348,996
Culture - Recreation	563,418	-	-	-	642,488	1,267,392	1,909,880
Urban Development	-	4,864,669	-	5,975,744	256,477	747,871	7,543,510
Debt Service	-	4,864,669	-	3,717,548	-	-	8,582,217
Total Expenditures	32,903,584	4,864,669	889,541	19,244,439	1,242,088	2,367,603	61,511,924
Excess (deficiency) of revenues over expenditures	1,539,035	(1,860,150)	(185,260)	(18,847,046)	19,945	67,258	(19,266,218)
Other Financing Sources (Uses)							
Transfers In	351,705	1,847,349	-	-	-	-	2,199,054
Transfers (Out)	(1,594,506)	-	-	(363,083)	-	(76,899)	(2,034,488)
Sale of Assets	-	-	-	59,770	-	-	59,770
Proceeds from Leases	-	-	170,135	-	-	-	170,135
Proceeds from Bonds	-	-	-	23,140,000	-	-	23,140,000
Total Other Financing Sources (Uses)	(1,242,801)	1,847,349	170,135	22,836,687	-	(76,899)	23,534,471
Net Change in Fund Balances	296,234	(12,801)	(15,125)	3,989,641	19,945	(9,641)	4,268,253
Fund Balances - Beginning	5,287,128	119,375	2,132,803	392,028	373,021	829,635	9,133,990
Fund Balances - Ending	\$ 5,583,362	\$ 106,574	\$ 2,117,678	\$ 4,381,669	\$ 392,966	\$ 819,994	\$ 13,402,243

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, 2017

Amounts reported for Governmental Activities in the Statement of Activities (page 17) are different because:

Net Change in Fund Balances - Governmental Funds (page 20)	\$ 4,268,253
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 (\$1,835,105) is less than capital outlays \$15,318,472 in the period.	13,483,367
Repayment of current bond and lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	6,764,556
Refunding bond issues becomes a use of current financial resources in governmental funds, but refundings represent payments of long-term debt in the statement of net position. This figure represents the annual amortization of the difference between refunding bond proceeds and the refunding payments made to paying agents.	(24,333)
The issuance of long-term debt provides current financial resources to governmental funds, however has no effect on increasing Net Position.	(23,310,135)
The net effect of changes in pension deferred outflows, deferred inflows and net liability utilized in the determination of pension expense reported on governmental activities column of government-wide financial statements to pension contributions reported as expenditures in governmental funds.	257,399
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.	(45,928)
In the statement of activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). Vacation and sick leave earned decreased by this amount this year.	7,576
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). Other post-employment benefits increased by this amount this year.	(760,241)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, therefore, requires the use of current financial resources. In the statement of activities, however, interest expenses is recognized as the interest accrues, regardless of when it is due. Accrued interest payable on bonds increased by this amount this year.	(128,978)
Internal Service Funds are used to charge the costs of certain activities, such as insurance. The (decrease) in net position has been allocated within governmental activities.	(173,028)
Change in Net Position of Governmental Activities	<u>\$ 338,508</u>

CITY OF EASTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

Business-type Activity		Governmental Activities			
Enterprise Fund		Internal Service Funds			
		Health Benefit Insurance	Liability Insurance	Unemployment Insurance	Total Internal Service Funds
<u>Assets</u>					
Cash and Cash Equivalents	\$ 687,978	\$ 257,360	\$ 158,011	\$ 98,892	\$ 514,263
Due from Other Funds	-	1,650,726	845,444	-	2,496,170
Total Assets	\$ 687,978	\$ 1,908,086	\$ 1,003,455	\$ 98,892	\$ 3,010,433
<u>Liabilities</u>					
<u>Current Liabilities:</u>					
Accounts Payable	\$ 107,347	\$ 811,975	\$ 21,487	\$ -	\$ 833,462
Accrued Salaries Payable	2,012	-	-	-	-
Due to Other Funds	191,107	940,463	20,747	7,133	968,343
Intergovernmental Payable	211,652	-	-	-	-
Compensated Absences	130,105	-	-	-	-
Total Current Liabilities	642,223	1,752,438	42,234	7,133	1,801,805
<u>Net Position</u>					
Restricted for Health Benefits	-	155,648	-	-	155,648
Restricted for Liability Insurance	-	-	961,221	-	961,221
Restricted for Unemployment Insurance	-	-	-	91,759	91,759
Unrestricted	45,755	-	-	-	-
Total Net Position	45,755	155,648	961,221	91,759	1,208,628
Total Net Position & Liabilities	\$ 687,978	\$ 1,908,086	\$ 1,003,455	\$ 98,892	\$ 3,010,433

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Business-type Activity	Governmental Activities		
	Internal Service Funds		
Enterprise Fund	Health Benefit Insurance	Liability Insurance	Unemployment Insurance
Sewage Treatment Plant Fund			
Operating Revenues			
Sewer Treatment Charges	\$ 5,281,087	\$ 3,782,632	\$ 893,006
Fund Allocations	- 93,617	-	25,052
Pension Aid Allocation	-	-	-
Participant Contributions	-	-	-
Total Operating Revenue	5,374,704	4,514,986	893,006
Operating Expenses			
Health Claim Payments	-	4,531,778	-
Liability/Unemployment Insurance	-	-	1,048,187
Sewage Treatment Plant Operations	5,210,138	4,531,778	1,048,187
Total Operating Expenses	5,210,138	4,531,778	1,048,187
Operating Income (Loss)	164,566	(16,792)	(155,181)
Non-Operating Revenues (Expenses)			
Interest Income	-	-	509
Miscellaneous	-	610	(30,458)
Refund of Prior Year Expenses	-	-	10,365
Fund Transfer (Out)	(164,566)	-	-
Total Non-Operating Revenues (Expenses)	(164,566)	610	(19,584)
Change in Net Position	-	(16,182)	(174,765)
Net Position - Beginning	45,755	171,830	1,135,986
Net Position - Ending	\$ 45,755	\$ 155,648	\$ 91,759

CITY OF EASTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<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	\$ 6,031,714	\$ -
Participant Contributions	- -	732,354
Cash Received from Funds Allocations	- -	4,036,958
Payments for Sewage Treatment Operations	(5,205,503)	- -
Payments for Insurance and Claims	- -	(4,442,996)
Net Cash Provided by (Used for) Operating Activities	<u>826,211</u>	<u>326,316</u>
Cash Flows from Non-Capital Financing Activities		
Refunds of Prior Year Expenditures	- -	10,365
Other Revenues (Expenses)	<u>(164,566)</u>	<u>(29,848)</u>
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(164,566)</u>	<u>(19,483)</u>
Cash Flows from Investing Activities:		
Interest on Cash Equivalents	- -	509
Net Increase in Cash and Cash Equivalents	661,645	307,342
Cash and Cash Equivalents - Beginning of Year	<u>26,333</u>	<u>206,921</u>
Cash and Cash Equivalents - End of Year	<u>\$ 687,978</u>	<u>\$ 514,263</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Operating Income	<u>\$ 164,566</u>	<u>\$ (154,054)</u>
Adjustments to Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease Due from Other Funds	3,092	(663,732)
(Increase) Decrease Intergovernmental Receivables	657,012	- -
Increase (Decrease) Compensated Absences	(2,905)	- -
Increase (Decrease) Current Liabilities	4,446	1,144,102
Total Adjustments	<u>661,645</u>	<u>480,370</u>
Net Cash Provided by/(Used for) Operating Activities	<u>\$ 826,211</u>	<u>\$ 326,316</u>

CITY OF EASTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 1,002,649	\$ 69,818	\$ 34,214
Investments at Fair Value:			
Fixed Income Securities	12,367,428	-	-
Corporate Stocks	11,060,697	-	-
Mutual Funds	26,767,367	2,708,674	-
Real Estate Fund	1,100,446	-	-
Accrued Interest Receivable	99,882	-	-
Other Receivables	<u>64,618</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>\$ 52,463,087</u>	 <u>\$ 2,778,492</u>	 <u>\$ 34,214</u>
 <u>Liabilities</u>			
Escrow Payable	\$ -	\$ -	\$ 34,214
Accounts Payable	6,905	-	-
Loan Payable	-	596,189	-
 Total Liabilities	 <u>6,905</u>	 <u>596,189</u>	 <u>34,214</u>
 <u>Net Position</u>			
Net Position in Trust for Pension Benefits and and Other Purposes	<u>\$ 52,456,182</u>	<u>\$ 2,182,303</u>	

CITY OF EASTON
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Fund</u>
<u>Additions</u>		
<u>Contributions:</u>		
Employer	\$ 4,847,653	\$ -
Plan Members	543,398	-
Other Sources	<u>178,538</u>	<u>-</u>
Total Contributions	<u>5,569,589</u>	<u>-</u>
<u>Investment Earnings:</u>		
Interest and Dividends	1,583,482	283,737
Net Increase in Fair Value of Investments	<u>5,189,983</u>	<u>86,729</u>
Total Investment Earnings	<u>6,773,465</u>	<u>370,466</u>
Less: Investment Expense	<u>(207,674)</u>	<u>(14,226)</u>
Net Investment Earnings	<u>6,565,791</u>	<u>356,240</u>
Total Net Additions	<u>12,135,380</u>	<u>356,240</u>
<u>Deductions</u>		
Benefits and Other Distributions	4,645,896	-
Administrative Expenses	31,355	159,661
Loan Interest Expense	-	27,163
Intergovernmental Transfer to City of Easton Grant Fund	<u>-</u>	<u>150,000</u>
Total Deductions	<u>4,677,251</u>	<u>336,824</u>
Changes in Net Position	7,458,129	19,416
Net Position - Beginning	<u>44,998,053</u>	<u>2,163,887</u>
Net Position - Ending	<u>\$ 52,456,182</u>	<u>\$ 2,183,303</u>

CITY OF EASTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 15,051,932	\$ 15,026,542	\$ 14,686,551	\$ (339,991)
Licenses and Permits	383,000	383,000	522,941	139,941
Fines and Forfeits	1,112,500	1,067,500	975,526	(91,974)
Interest and Rents	1,664,693	1,664,693	1,654,454	(10,239)
Intergovernmental	4,835,544	4,867,544	4,683,049	(184,495)
Charges for Service	12,173,380	12,186,380	11,730,528	(455,852)
Miscellaneous	214,500	214,500	189,570	(24,930)
Total Revenues	35,435,549	35,410,159	34,442,619	(967,540)
Expenditures:				
General Government	6,566,108	6,909,050	6,576,996	332,054
Public Safety	18,657,244	18,790,941	18,559,032	231,909
Health and Welfare	116,388	116,263	114,395	1,868
Public Works - Sanitation	5,151,786	5,235,015	5,066,199	168,816
Public Works - Roads	1,804,767	1,766,929	1,680,734	86,195
Public Works - Other	364,087	392,445	342,810	49,635
Urban Development	614,248	605,010	563,418	41,592
Total Expenditures	33,274,628	33,815,653	32,903,584	912,069
Excess (Deficiency) of Revenues				
Over Expenditures	2,160,921	1,594,506	1,539,035	(55,471)
Budgetary Reserve	(566,415)	-	-	-
	1,594,506	1,594,506	1,539,035	(55,471)
Other Financing Sources (Uses)				
Transfers In	-	-	351,705	351,705
Transfers (Out)	(1,594,506)	(1,594,506)	(1,594,506)	-
Total Other Financing Sources (Uses)	(1,594,506)	(1,594,506)	(1,242,801)	351,705
Net Change in Fund Balance	-	-	296,234	296,234
Fund Balance - Beginning	5,287,128	5,287,128	5,287,128	-
Fund Balance - Ending	\$ 5,287,128	\$ 5,287,128	\$ 5,583,362	\$ 296,234

CITY OF EASTON
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes - Allocated from Levy	\$ 2,997,244	\$ 2,997,244	\$ 2,997,244	\$ -
Local Governmental Contribution	- - -	- - -	7,275	7,275
Total Revenues	2,997,244	2,997,244	3,004,519	7,275
Expenditures:				
Debt Service Principal	2,902,099	2,947,101	2,947,101	-
Debt Service Interest	1,926,615	1,917,568	1,916,568	1,000
Fiscal Agent Fees	4,500	3,500	1,000	2,500
Total Expenditures	4,833,214	4,868,169	4,864,669	3,500
(Deficiency) of Revenues over Expenditures	(1,835,970)	(1,870,925)	(1,860,150)	10,775
Other Financing Sources (Uses)				
Transfers In	1,835,970	1,835,970	1,847,349	11,379
Transfers Out	- - -	- - -	- - -	- - -
Total Other Financing Sources (Uses)	1,835,970	1,835,970	1,847,349	11,379
Net Change in Fund Balance	- - -	(34,955)	(12,801)	22,154
Fund Balance - Beginning	119,375	119,375	119,375	- - -
Fund Balance - Ending	\$ 119,375	\$ 84,420	\$ 106,574	\$ 22,154

CITY OF EASTON
RECREATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes - Allocated from Levy	\$ 1,067,275	\$ 1,092,665	\$ 1,067,255	\$ (25,410)
Intergovernmental	43,746	43,746	43,746	-
Recreational Charges	113,750	143,232	117,520	(25,712)
Hugh Moore Park	<u>121,959</u>	<u>121,959</u>	<u>119,746</u>	<u>(2,213)</u>
Total Revenues	<u>1,346,730</u>	<u>1,401,602</u>	<u>1,348,267</u>	<u>(53,335)</u>
Expenditures:				
Parks	767,303	725,598	697,460	28,138
Recreation	323,764	365,296	346,865	18,431
Hugh Moore Park	<u>255,663</u>	<u>238,151</u>	<u>223,067</u>	<u>15,084</u>
Total Expenditures	<u>1,346,730</u>	<u>1,329,045</u>	<u>1,267,392</u>	<u>61,653</u>
Excess of Revenues over Expenditures	<u>-</u>	<u>72,557</u>	<u>80,875</u>	<u>8,318</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	-	(76,899)	(76,899)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(76,899)</u>	<u>(76,899)</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>(4,342)</u>	<u>3,976</u>	<u>8,318</u>
Fund Balance - Beginning	<u>152,370</u>	<u>152,370</u>	<u>152,370</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 152,370</u>	<u>\$ 148,028</u>	<u>\$ 156,346</u>	<u>\$ 8,318</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017 and is presented as a discrete component unit.

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, 2017 and is presented as a discrete component unit.

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, 2017 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

BUSINESS-TYPE ACTIVITIES (Cont'd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF NET POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2017

	Easton Suburban Water Authority	Easton Parking Authority	Total
<u>ASSETS</u>			
Current Assets	\$ 8,967,892	\$ 106,758	\$ 9,074,650
Non-current Assets	<u>104,332,794</u>	<u>393,879</u>	<u>104,726,673</u>
Total Assets	<u><u>\$ 113,300,686</u></u>	<u><u>\$ 500,637</u></u>	<u><u>\$ 113,801,323</u></u>
<u>LIABILITIES</u>			
Current Liabilities	\$ 3,661,705	\$ 60,972	\$ 3,722,677
Non-current, Long Term Debt	<u>28,818,821</u>	<u>462,350</u>	<u>29,281,171</u>
Total Liabilities	<u><u>32,480,526</u></u>	<u><u>523,322</u></u>	<u><u>33,003,848</u></u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	72,973,628	393,879	73,367,507
Unrestricted	<u>7,846,532</u>	<u>(416,564)</u>	<u>7,429,968</u>
Total Net Position	<u><u>80,820,160</u></u>	<u><u>(22,685)</u></u>	<u><u>80,797,475</u></u>
Total Net Position and Liabilities	<u><u>\$ 113,300,686</u></u>	<u><u>\$ 500,637</u></u>	<u><u>\$ 113,801,323</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

BUSINESS-TYPE ACTIVITIES (Cont'd.)

CITY OF EASTON
CONDENSED COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUSINESS-TYPE COMPONENT UNITS
AS OF DECEMBER 31, 2017

	Easton Suburban <u>Water Authority</u>	Easton Parking <u>Authority</u>	Total
<u>Operating Revenues</u>			
Parking Garage Revenues	\$ -	\$ 1,284,314	\$ 1,284,314
Water System Revenues	<u>14,850,310</u>	<u>-</u>	<u>14,850,310</u>
Total Operating Revenue	<u>14,850,310</u>	<u>1,284,314</u>	<u>16,134,624</u>
<u>Operating Expenses</u>			
Parking related administrative and direct operating	-	337,461	337,461
Water system related administrative and direct operating	9,031,603	-	9,031,603
Depreciation	<u>3,133,896</u>	<u>82,585</u>	<u>3,216,481</u>
Total Operating Expenses	<u>12,165,499</u>	<u>420,046</u>	<u>12,585,545</u>
Net Operating Income	<u>2,684,811</u>	<u>864,268</u>	<u>3,549,079</u>
Non-Operating Revenues (Expenses)	<u>(579,224)</u>	<u>(913,154)</u>	<u>(1,492,378)</u>
Change in Net Position	2,105,587	(48,886)	2,056,701
Capital Value Provided by Developers	<u>1,675,530</u>	<u>-</u>	<u>1,675,530</u>
Beginning Net Position	<u>77,039,043</u>	<u>26,201</u>	<u>77,065,244</u>
Ending Net Position	<u>\$ 80,820,160</u>	<u>\$ (22,685)</u>	<u>\$ 80,797,475</u>

GOVERNMENTAL-TYPE ACTIVITIES

Easton Municipal Authority - The Easton Municipal Authority filed articles of incorporation with the Commonwealth of Pennsylvania on July 19, 2005.

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. The City and Authority refinanced the 2010 Note in the year 2014, and entered into a 2014 Note with Quakertown National Bank and is presented as a blended component unit.

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, 2017 audit report had been available at the date of the City's financial statements.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

GOVERNMENTAL-TYPE ACTIVITIES (Cont'd.)

CITY OF EASTON
CONDENSED STATEMENT OF NET POSITION - CASH BASIS
GOVERNMENTAL -TYPE COMPONENT UNIT
AS OF DECEMBER 31, 2017

	<u>Easton Municipal Authority</u>
<u>Assets</u>	
Future Lease Rental from Primary Gov't - City of Easton	<u>\$ 1,662,000</u>
<u>Liabilities</u>	
Note Payable	<u>1,662,000</u>
Net Position	<u>\$ -</u>

CITY OF EASTON
CONDENSED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE
GOVERNMENTAL -TYPE COMPONENT UNIT
AS OF DECEMBER 31, 2017

	<u>Easton Municipal Authority</u>
<u>Receipts</u>	
Lease Payments from Primary Gov't - City of Easton	<u>\$ 571,383</u>
Total Receipts	<u>571,383</u>
<u>Disbursements</u>	
Note Payments:	
Interest Payments	42,383
Principal Payment	<u>529,000</u>
Total Disbursements	<u>571,383</u>
Change in Fund Balance	-
Cash Basis Fund Balance - Beginning	-
Cash Basis Fund Balance - Ending	<u>\$ -</u>

Joint Ventures

Easton Area Joint Sewer Authority

The City is a participating member of the Easton Area Joint Sewer Authority (EAJSA). The EAJSA is run by a governing joint board consisting of twelve members from participating municipalities. The EAJSA joint board approves an annual operating budget and each participating municipality pays a pro-rated share of operating costs based upon proportional water flow amounts into the sewer plant and capital interest percentages of plant facilities. The City's contribution to the EAJSA during the calendar year 2017 covering operating and debt service costs was \$2,545,887. Complete financial statements of the EAJSA can be obtained from the EAJSA administration office at 50-A South Delaware Drive, Easton, PA.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd.)

Joint Ventures (Cont'd.)

Easton Area Joint Sewer Authority

Service Agreement

The Sewage Treatment Service Agreement, dated as of April 1, 1988, as amended (the "Service Agreement") between the Authority and the City, the Boroughs of Tatamy, West Easton and Wilson and the Townships of Forks and Palmer (the "Participating Municipalities") governs the provision of bulk sewage treatment service by the Authority, prescribes the allocation among the Participating Municipalities of treatment capacity in the plant, the adoption of Authority budgets, payment of bills, compliance with laws, rules and regulations, the adoption by each Participating Municipality of an annual budget, the setting of sewer rates and charges by the Authority Board, and the payment of all amounts due by Participating Municipalities without suspension notwithstanding distribution or other failure of plant operations.

Basis of Presentation

Government-wide Financial Statements:

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

Fund Financial Statements:

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

1. **GOVERNMENTAL FUNDS:**

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

1. GOVERNMENTAL FUNDS: (Cont'd.)

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

2. PROPRIETARY FUND:

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

Enterprise Funds - The City has leased all Water system facilities to the Easton Suburban Water Authority. As a result of the leasing arrangement, the net asset value previously reported in a Water Fund has been transferred to the Governmental Activities of the City.

Classified as an Enterprise Fund is the Sewage Treatment Plant Management Fund whereby the City of Easton operates the sewage 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 Trust Funds - 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, 2017

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd.)

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 and “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, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Measurement Focus and Basis of Accounting (Cont'd.)

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 are 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, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Measurement Focus and Basis of Accounting (Contd.)

Taxes, Other and Intergovernmental Receivables

Taxes Receivable -

General Fund -

Real Estate Taxes	\$ 911,187
Per Capita Taxes	559,926
Earned Income and Real Estate Transfer Taxes	1,807,452
Total Taxes Receivable	<u><u>\$ 3,278,565</u></u>

Other Receivables -

General Fund -

Utility Billings for Sewage and Refuse	\$ 1,927,801
Other Current Receivables - Local Sources	602,040
Total Other Receivables	<u><u>\$ 2,529,841</u></u>

Intergovernmental Receivables -

General Fund -

Local Governmental Sources	376,200
----------------------------	---------

Major Grant Funds -

Grants anticipated from the Commonwealth of Pennsylvania	2,811,769
--	-----------

Capital Project Funds -

Funds due from Hugh Moore Park Trust	270,698
Total Intergovernmental Receivables	<u><u>\$ 3,458,667</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Measurement Focus and Basis of Accounting (Cont'd.)

Property Taxes

Based upon assessed valuations by Northampton County, the City's real estate valuation for taxation purposes was \$357,336,900, 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, 2017 is as follows:

The municipal tax rate for all purposes in 2017 was 24.950 Mills.

General Purposes	13.213
Debt Purposes	8.655
Recreational Purposes	<u>3.082</u>
Total Tax Rate	<u><u>24.950 Mills</u></u>

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

Reconciliation of assessed 2017 Real Estate Taxes:

Taxes Levied based upon adjusted assessment	\$ 8,896,286
Add: Penalties	73,577
Less: Discounts	(120,023)
Cash Collections and Discounts	(8,436,272)
Uncollected Balance as of December 31, 2017	<u><u>\$ 413,568</u></u>

Prepaid Items and Inventories

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

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

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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.

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 amount of \$2,134,202 in the Governmental Activities. A portion of compensated absences reported by the Business Activities of \$130,105. 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 and discounts 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, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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. Restrictions are comprised of Liquid Fuel required uses from the Commonwealth, grant restrictions and provisions of Capital Bond Issuance.

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 funding for future benefits and insurance costs.

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 2017 fiscal year.
- b. The Liability and Casualty Fund should maintain a balance of at least \$1,000,000 by the end of the 2017 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania Municipal Retirement System (PMRS) and additions to/deductions from PMRS's fiduciary net position have been determined on the same basis as they are reported by PMRS. The City also maintains an Aggregated Pension Fund which is a single-employer defined benefit plan and acts as a common investment and administrative agent for the City's police, firemen, and non-uniformed defined pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms investments are reported at fair value.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 to 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, 2017, the bank balance of the City's deposits with financial institutions was \$15,221,073 compared to the carrying amount of \$15,188,566. The difference is primarily caused by items in-transit and outstanding checks. \$14,721,073 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.

Investments

In accordance to GASB Statement No. 72, investments generally are to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has the present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets. These assets were previously required to be measured at fair value. The City of Easton has no investments to report within the Governmental and Business-type Funds.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Cont'd.)

Governmental and Business-Type Funds: (Cont'd.)

Investments (Cont'd.)

Fair Value is measured using a hierarchy of inputs using valuation techniques. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

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.

Fiduciary-Type Funds:

Investments

In accordance to GASB Statement No. 72, investments generally are to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has the present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Cont'd.)

Fiduciary-Type Funds: (Cont'd.)

Investments (Cont'd.)

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets. These assets were previously required to be measured at fair value.

Fair Value is measured using a hierarchy of inputs using valuation techniques. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

Private-Purpose Trust Fund -

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents		
Schwab Money Market - Cash Reserve Premium Account	\$ 69,818	\$ 69,818
Total Cash and Cash Equivalents	<u>\$ 69,818</u>	<u>\$ 69,818</u>
Mutual Funds:		
Corporate Bonds	\$ 1,124,072	\$ 1,127,512
Corporate Stocks	1,110,105	1,581,162
Total Investments	<u>\$ 2,234,177</u>	<u>\$ 2,708,674</u>

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.

Fair Value Measurement

The methodology of determining all investment fair values is Level 1, an input of unadjusted quoted prices for identical assets liabilities in active markets that the pension fund has the ability to access. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Based upon fair values obtained from trust account records provided by Morgan Stanley and UBS, the City believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Cont'd.)

Aggregated Pension Fund

Cash Deposits with Financial Institutions

Investments

A detailed listing of investments is provided in a separately issued Aggregated Pension Report available at the City's finance department office. Cash, cash equivalents, and investments by major category consist of the following as of December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents:		
State and Municipal Interest Checking Account	\$ 507,076	\$ 507,076
UBS Cash Reserves	455,231	455,231
Morgan Stanley DROP Account	40,342	40,342
Total cash and cash equivalents	<u>\$ 1,002,649</u>	<u>\$ 1,002,649</u>
Investments presented at cost:		
Common Stock - Equities	\$ 8,694,997	\$ 11,060,697
Mutual Funds	21,509,802	26,767,367
Fixed income securities:		
Government/Municipal Securities	578,320	577,274
Corporate Bonds	10,622,748	10,561,056
Asset Backed Securities	1,230,602	1,229,098
Real Estate Fund	1,070,746	1,100,446
Total Investments	<u>\$ 43,707,215</u>	<u>\$ 51,295,938</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 Fiduciary Funds holdings of corporate bonds are rated between BBB- and AAA by Standards and Poor's; Mutual Funds are not rated. The Fiduciary Funds has no policy in regard to credit risk.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Cont'd.)

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 Aggregated Pension Fund's deposits may not be returned to it. The Aggregated Pension Fund does not have a policy for custodial risk. At December 31, 2017 the bank balance and carrying amount of the Plan's deposits with financial institutions including cash equivalents was \$1,002,649. There were no items in-transit or outstanding checks at year-end. The Aggregated Pension Fund's deposits of \$712,307 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 Aggregated Pension Fund'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 Fiduciary Funds do not hold any equities or non-U.S. government fixed income securities that comprise more than the five percent of total investments. The Fiduciary Funds have 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 Fiduciary Funds do not have a formal policy in regard to interest rate risk. The Fiduciary Funds have contracted with UBS and Schwab 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 Aggregated Pension Fund has foreign currency risk through its investment in various bonds and stocks and by its holdings of international mutual funds. The Aggregated Pension Fund has no policy regarding exposure to foreign currency risk.

NOTE 4 DEFERRED OUTFLOW OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. One is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price, including associated premiums required to fund escrow requirements. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. This amount for the City is \$292,001. The other items are the current year contribution to the PMRS pension plan which will impact the net pension liability for December 31, 2017 in the amount of \$446,855 and differences between projected and actual earnings and differences between expected and actual experience for pensions combined amount of \$2,557,092 and changes in pension assumptions of \$4,191,055.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 DEFERRED INFLOWS OF RESOURCES (Cont'd)

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 City has two types of items, one 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 governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and utility billings. This amount of \$2,115,113 is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second item is reported on the government-wide Statement of Net Position representing the difference between expected and actual experience, actual earnings and assumptions in the pension plans in the total amount of \$4,147,283.

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	\$ 5,975,744	\$ 13,648,117
Capital Assets Depreciated:			
Land Improvements	1,074,216	-	1,074,216
Buildings & Improvements	35,646,367	8,083,209	43,729,576
Vehicles & Equipment	9,594,691	946,373	10,541,064
Infrastructure	2,825,036	313,146	3,138,182
Leased Water Plant Assets	20,590,352	-	20,590,352
Total Depreciated Capital Assets	\$ 69,730,662	\$ 9,342,728	\$ 79,073,390
	\$ 77,403,035	\$ 15,318,472	\$ 92,721,507
Less: Accumulated Depreciation:			
Land Improvements	\$ 890,489	\$ 11,265	\$ 901,754
Buildings & Improvements	4,544,354	830,142	5,374,496
Vehicles & Equipment	6,621,573	445,760	7,067,333
Infrastructure	1,083,320	136,131	1,219,451
Leased Water Plant Assets	14,316,060	411,807	14,727,867
Total Accumulated Depreciation	\$ 27,455,796	\$ 1,835,105	\$ 29,290,901
Total Net Capital Assets	\$ 49,947,239	\$ 13,483,367	\$ 63,430,606

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

Governmental Activities:	
General	\$ 807,446
Public Safety	550,533
Sanitation Activities	55,053
Highways & Roads	146,808
Other Public Services	55,053
Recreation	220,212
Total Depreciation Expense -	
Governmental Activities	\$ 1,835,105

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTES 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable to:</u>	<u>Payable from:</u>	
Insurance Fund	General Fund	\$ 632,847
Insurance Fund	Sewer Fund	191,107
Insurance Fund	City Hall Fund	21,492
General Fund	Revolving Loan Fund	270,698
General Fund	Major Grant Funds	1,445,459
General Fund	Federal Programs Fund	221,114
General Fund	Science Building Fund	100,000
General Fund	Revolving Capital Fund	385,481
Debt Service Fund	General Fund	100,000
Recreation Fund	General Fund	112,998
Revolving Capital Fund	General Fund	300,000
Liquid Fuels Fund	General Fund	21,045
General Fund	Donation Fund	11,535
General Fund	Liquid Fuels Fund	22,965
Major Grant Funds	2015 Capital Bond Fund	750,000
Project Note Fund	Major Grant Funds	2,654,238
General Fund	Project Note Fund	2,860,274
General Fund	2015 Tax Exempt Fund	192,080
Major Grant Fund	2017 Bond Fund	740,012
General Fund	2017 Bond Fund	572,882
Land Purchase Fund	General Fund	6,473,683
Health Benefit Fund	Recreation Fund	40,413
General Fund	Payroll Fund	107,459
General Fund	Debt Service Fund	19,583
General Fund	Health Benefit Fund	940,463
General Fund	Insurance Liability Fund	20,747
General Fund	Unemployment Insurance Fund	7,133
Health Benefit Fund	General Fund	1,610,313
General Fund	Major Grant Funds	1,181,614
		<u>\$ 22,007,635</u>

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

Interfund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>	
General Fund	Debt Service Fund	\$ 1,594,506
Sewage Treatment Fund	Debt Service Fund	164,566
Recreation Fund	Debt Service Fund	76,899
2013 Bond Fund	General Fund	351,705
2017 Bond Fund	Debt Service Fund	11,378
		<u>\$ 2,199,054</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7 GENERAL LONG-TERM DEBT

The following is a summary of changes in Debt Obligations for the year ended December 31, 2017.

Governmental Activities:

<u>Type of Debt</u>	<u>Balance</u> <u>December 31,</u>			<u>Balance</u> <u>December 31,</u>		<u>Amounts Due</u> <u>within One</u> <u>Year</u>
	<u>2016</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>2017</u>		
Pension Debt Obligations	\$ 18,049,000	\$ -	\$ (809,000)	\$ 17,240,000	\$ 869,000	
Capital Debt Obligations	29,687,161	23,140,000	(7,990,597)	44,836,564	1,485,555	
Capitalized Lease Debt	3,165,974	170,135	(802,686)	2,533,423	815,499	
Post-Employment Benefits	6,781,824	760,241	-	7,542,065	Not Est.	
Compensated Absences	2,141,778	-	(7,576)	2,134,202	Not Est.	
Net Pension Liability	32,697,464	-	(436,211)	32,261,253	Not Est.	
Total	\$ 92,523,201	\$ 24,070,376	\$ (10,046,070)	\$ 106,547,507	\$ 3,170,054	

Business-Type Activities:

<u>Type of Debt</u>	<u>Balance</u> <u>December 31,</u>			<u>Balance</u> <u>December 31,</u>		<u>Amounts Due</u> <u>within One</u> <u>Year</u>
	<u>2016</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>2017</u>		
Compensated Absences	\$ 133,010	\$ -	\$ (2,905)	\$ 130,105		\$ 130,105

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7 GENERAL LONG-TERM DEBT (Cont'd.)

Pension Debt Obligations:

Federally Taxable General Obligation Bonds, Series of 2007, maturing through December 1, 2025, bearing interest ranging from 6.73% to 7.17%, interest and principal payable semi-annually June 1 and December 1.

\$ 8,925,000

Federally Taxable General Obligation Bonds, Series A of 2015, maturing through December 1, 2029 bearing interest ranging from 1.170% to 4.050%, interest and principal payable semi-annually June 1 and December 1.

8,315,000

Capital Debt Obligations

Federally Taxable, General Obligation Bond, Series C of 2017, Merchants Bank of Bangor, maturing through December 13, 2019, bearing interest at a fixed rate of 3.45%, interest payable semi-annually June 13 and December 13, principal is payable in entirety on December 13, 2019.

2,355,000

General Obligation Bonds, Series A of 2017, maturing through 2031, bearing interest ranging from 2.00% to 3.100%, principal and interest is payable semi-annually on May 15 and November 15.

12,755,000

General Obligation Bonds, Series B of 2017, maturing through 2037, bearing interest ranging from 1.729% to 4.485%, principal and interest is payable semi-annually on May 15 and November 15.

1,530,000

Federally Taxable General Obligation Bond, Series D of 2017, Manufacturer's and Trader's Trust Company, maturing through December 15, 2019, principal and interest payable semi-annually June 15 and December 15, commencing June 15, 2018, at a fixed rate of 2.62%..

6,500,000

General Obligation Note of 2014, maturing through 2023, bearing interest of 3.65%, interest and principal payable June 15 and December 15.

451,263

General Obligation Bond, Series of 2013, maturing through December 31, 2027, bearing interest ranging from 2.00% to 4.05%, payable semi-annually on May 15 and November 15.

16,875,000

Federally Taxable, General Obligation Bond, Series B of 2015, maturing through December 1, 2024, bearing interest ranging from 1.170% to 3.450%, interest and principal payable semi-annually June 1 and December 1.

605,000

General Obligation Bonds, Series C of 2015, maturing through December 1, 2029, bearing interest ranging from 2.00% to 3.00%, interest and principal payable semi-annually June 1 and December 1.

3,765,000

Other Financing Obligations

Master Lease Purchase Agreement, 2009, First Columbia Bank, 180 monthly payments, final maturity year 2022.

451,564

Guaranteed Lease Revenue Note of 2014, Easton Municipal Authority, Quakertown National Bank, maturing through year 2020 bearing interest of 2.20%, interest and principal payable semi-annually February 15 and August 15.

1,662,000

Master Lease Purchase Agreement, Fulton Bank, National Association, dated September 2, 2015, semi-annual payments of \$36,750 on March 5 and September 5, maturing through the year 2020, bearing interest of 2.47%.

177,135

Governmental Lease Purchase Agreement, dated August 10, 2015, TCF Equipment Finance, a division of TCF National Bank, quarterly payments of \$17,220, maturing through May 2018 bearing interest of 2.93%.

34,064

Governmental Lease Purchase Agreement, dated August 10, 2015, TCF Equipment Finance, a division of TCF National Bank, annual payments of \$49,377, maturing through July 2018 bearing interest of 2.89%.

47,990

Governmental Lease Purchase Agreement, dated September 21, 2017, quarterly payments of \$9,164, maturing through 2022, bearing interest of 3.19%.

160,971

Total

\$64,609,987

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7 GENERAL LONG-TERM DEBT (Cont'd.)

Annual requirements for combined principal and interest costs for Pension, Capital, and Other Financing Obligations are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2018	\$ 3,175,113	\$ 2,465,740	\$ 5,640,853
2019	12,228,551	2,244,728	14,473,279
2020	3,465,927	1,865,551	5,331,478
2021	3,565,544	1,728,542	5,294,086
2022	3,636,995	1,580,526	5,217,521
2023	3,714,857	1,426,480	5,141,337
2024	3,879,000	1,262,716	5,141,716
2025	4,059,000	1,083,499	5,142,499
2026	4,275,000	868,356	5,143,356
2027	4,400,000	744,168	5,144,168
2028	4,515,000	628,928	5,143,928
2029	4,690,000	454,176	5,144,176
2030	4,860,000	284,263	5,144,263
2031	3,555,000	137,453	3,692,453
2032	90,000	26,261	116,261
2033	90,000	22,425	112,425
2034	95,000	18,388	113,388
2035	100,000	14,128	114,128
2036	105,000	9,643	114,643
2037	110,000	4,933	114,933
Totals	\$64,609,987	\$16,870,904	\$ 81,480,891

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 \$ 2,997,244

Fund Allocations - in addition to the above allocation of real estate taxes as provided in the tax millage ordinance; the funding for debt service costs associated with Pension Debt Obligations is also in the form of transfers which are apportioned to cost categories within the General Fund, Recreation Fund and Sewage Treatment Fund as

General Fund Allocations:

General	356,683
Public Safety	987,515
Health and Welfare	7,690
Sanitation	88,819
Highways	130,729
Other Public Works	7,690
Urban Development	15,380
Recreation Fund Allocation	76,899
Sewage Treatment Fund Allocation	164,564
Capital Project Funds	11,380
Total Funds Allocations	1,847,349
Local Source Contribution	7,275
Total Sources of Revenues	\$ 4,851,868

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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. Any material losses that would not be covered by insurance would be presented 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 and the City of Easton was \$545,766. The City did contribute this amount and additional amounts to the Trust during the 2017 year. As of December 31, 2017, assets of the Trust Fund amounted to \$140,829.

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(B). The Plan permits participants to defer a portion of their salary until future years. Empower Retirement and Valic are the managers of the plans and have reported the value of the Deferred Compensation Plan to be \$1,864,449 and \$5,346,404, respectively as of December 31, 2017.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS

Aggregate 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 City, participating employees, the Commonwealth of Pennsylvania, and earnings from the Funds' investments.

In addition to Act 205, the City of Easton Aggregate 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 Postretirement Adjustment Act, Act of 1988, (P.L. 1192, No. 147), as amended, 53 P.S. Section 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. Section 41101, et seq.

The Aggregate Pension Fund acts as a common investment and administrative agent for the City's police, firemen, and non-uniform defined benefit pension plans. The police pension plan is governed by Article 147 of the City's codified ordinances. The firemen's pension is governed by Article 149 of the City's codified ordinances. The officers' and employees' pension 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.

Municipal officials who are charged with administering municipal pension plans are recommended to utilize the handbook "Municipal Pension Plans" as prepared by the Bureau of Municipal Pension and Fire Relief Audits. The handbook does not encompass all aspects of plan management, but outlines pertinent information concerning responsibilities of all municipal officials. The City of Easton has delegated the Authority to UBS Financial Services to hold the Aggregated Pension Fund assets in trust; various financial advisor's manage the investment of assets in accordance with individual investment policies established by the Aggregated pension Board of Trustees.

City of Easton Officers and Employees Pension Plan

General Description - The City of Easton Officers' and Employees' Pension Plan is a single employer defined benefit plan controlled by the provisions of Pennsylvania 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 moderate distressed level 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.

Plan Membership at December 31, 2017

Inactive Members or Beneficiaries Currently Receiving Benefits	63
Inactive Members Entitled to but not yet Receiving Benefits	0
Active Members	2
Total Members	<u><u>65</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Officers and Employees Pension Plan (cont'd)

Benefits Provided

Eligibility

All full-time officers and employees who were employed prior to December 31, 1978, and who are not members of the police force or fire department join the Plan upon employment.

Normal Retirement

A member is eligible for normal retirement after attainment of age 55 and completion of 20 years of service.

The normal retirement pension is payable monthly during the member's lifetime with payments continuing after the member's death to the surviving spouse equal to 50% of the initial amount payable to the member.

The amount of monthly pension is equal to 50% of average monthly compensation, plus an incremental pension equal to 1.25% of average monthly compensation for each complete year of service in excess of 20 years.

Average monthly compensation is based upon the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

Late Retirement

If a member continues working after his normal retirement date, his pension does not start until he actually retires. The late retirement benefit is the benefit accrued to the late retirement date.

Disability Retirement

If a member who has completed 12 or more years of service is disabled, he is eligible for a disability pension. The disability pension is equal to the benefit accrued to the date of disability.

Death Benefits

If a member with 12 or more years of service dies, a death benefit is payable to his spouse. The benefit is equal to 50% of the members pension he was or would have received at the date of death prorated for less than 20 years.

Vesting

A member's benefits vest upon the completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to the benefit accrued to the date of termination.

Accrued Pension

The benefit accrued at any date other than the normal retirement date is equal to the projected normal retirement benefit, multiplied by the ratio of the number of years of service to date to the total number of years of service projected at normal retirement.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Officers and Employees Pension Plan (cont'd)

Contributions

Members contribute 6.5% of pay.

There is no interest on contributions.

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by the Aggregated Pension Board. It is the policy of the Aggregate Pension Board to pursue an investment strategy to obtain a reasonable diversification of investments, which have a ready market for resale. The following was the Board's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Domestic Equity	45.50%
International Equity	9.00%
Fixed Income	40.50%
Real Estate	5.00%
Cash	0.00%

Concentrations

Concentrations are defined as investments held by the Officers and Employees Pension Plan, other than those issued or explicitly guaranteed by the U.S. Government, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2017, the Officers and Employees Pension Plan does not hold any equities or non-governmental fixed income securities that comprise more than five percent of total investments.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.64%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The net pension liability was measured as of December 31, 2017, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2017. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The components of the net pension liability of the Officers and Employees Pension Plan at December 31, 2017 were as follows:

Total Pension Liability	\$ 8,719,405
Plan Fiduciary Net Position	<u>5,133,923</u>
Net Pension Liability	<u>\$ 3,585,482</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability - 58.88%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Officers and Employees Pension Plan (cont'd)

Changes in the Net Pension Liability

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2016	\$ 8,865,883	\$ 4,647,159	\$ 4,218,724
Service Cost	6,482	-	6,482
Interest Cost	612,746	-	612,746
Changes of Benefit Terms	-	-	-
Changes for Experience	(382,462)	-	(382,462)
Changes of Assumptions	603,328	-	603,328
Contributions - employer	-	827,782	(827,782)
Contributions - member	-	7,007	(7,007)
Net Investment Income	-	645,050	(645,050)
Benefit Payments, including			
refunds of member contributions	(986,572)	(986,572)	-
Administration Expense	-	(6,503)	6,503
Other Changes	-	-	-
Net Changes	<u>(146,478)</u>	<u>486,764</u>	<u>(633,242)</u>
Balances at 12/31/2017	<u>8,719,405</u>	<u>5,133,923</u>	<u>3,585,482</u>

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%	
Salary Increases	5.00%	(average, including inflation)
Investment Rate of Return	7.125%	(including inflation)
Postretirement Cost of Living Increase	0.00%	

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	45.50%	5.50% - 7.50%
International Equity	9.00%	4.50% - 6.50%
Fixed Income	40.50%	1.00% - 3.00%
Real Estate	5.00%	4.50% - 6.50%
Cash	0.00%	0.00% - 1.00%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Officers and Employees Pension Plan (cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 7.125%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.125%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u> <u>(6.125%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.125%)</u>	<u>1% Increase</u> <u>(8.125%)</u>
Plan's Net Pension Liability	\$4,179,899	\$3,585,482	\$3,059,161

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$534,001. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	- -	- -
Net difference between projected and actual earnings on pension plan investments	<u>194,108</u>	<u>(295,429)</u>
Total	<u>\$ 194,108</u>	<u>\$ (295,429)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2018	\$ 19,882
2019	19,882
2020	(77,170)
2021	(63,915)
	<u><u>\$ (101,321)</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Firemen Pension Plan

General Description - The City of Easton Firemens' Pension Plan is a single employer defined benefit plan controlled by the provisions of Pennsylvania 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 moderate distressed level 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.

Plan Membership at December 31, 2017

Inactive Members or Beneficiaries Currently Receiving Benefits	43
Inactive Members Entitled to but not yet Receiving Benefits	1
Active Members	39
Total Members	83

Benefits Provided

Eligibility

All full-time members of the fire department join the Plan upon employment.

Normal Retirement

A participant is eligible for normal retirement after attainment of age 50 and completion of 20 years of service.

The normal retirement pension is payable monthly during the participant's lifetime, with payments continuing after the participant's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the participant at the time of the participant's death.

For members hired before January 1, 2013, the amount of monthly pension is equal to 50% of average monthly compensation plus 2.5% of average monthly compensation per year of service in excess of 20 years of service (Maximum 75% of compensation) plus an incremental pension of 1.25% times average monthly compensation for each full year of service (before age 65) in excess of 20 years, up to an additional \$100 per month.

For members hired after January 1, 2013, the monthly pension is equal to 50% of average monthly

Average monthly compensation (compensation includes longevity pay, degree pay, extra duty pay, and birthday pay) is based upon the highest year within the last five years of employment, or the final rate of pay (base pay plus longevity), whichever is greater.

Late Retirement

If a participant continues working after his normal retirement date, his pension does not start until he actually retires. The late retirement benefit is the benefit accrued to the late retirement date.

Disability Retirement

If a participant is disabled in the line of duty, regardless of service, he is eligible for a disability pension. The disabled participant shall receive full benefits provided by the Plan.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Firemen Pension Plan (cont'd)

Death Benefits

If a member who has worked more than 20 years of service dies or is killed in service, a death benefit is payable to a surviving spouse or children under age 18 in an amount equal to the 100% of the monthly pension had the participant been eligible to retire at the time of death.

If a member with at least 12 but less than 20 years of service dies who is not subject to the above death benefit, a death benefit is payable equal to 25% of compensation.

Vesting

Effective January 1, 2009, a participant's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension equal to the benefit accrued to the date of termination. A participant must continue contributing to the Plan until they would have reached age 50.

Accrued Pension

The benefit accrued at any date other than the normal retirement date is equal to the projected normal retirement benefit multiplied by the ratio of the number of years and days of service to date to the total number of years and days of service projected at normal retirement.

Contributions

If an actuarial study shows the Plan to have sufficient assets to fund plan benefits, member contributions may be suspended.

Members contribute 6.5% of pay. Members hired after January 1, 2013, contribute 6.5%, until the fund becomes Level One distress or less using 2011 actuarial assumptions, at which point they contribute 5.0% of pay.

Members contributions are not credited with interest.

Any and all monies in a participant's voluntary contribution and interest accounts were distributed out of the Plan on or before December 31, 2005.

Deferred Retirement Option Program (DROP)

Effective April 2, 2007, an active member who has met the eligibility for normal retirement may elect to participate in the deferred retirement option program for a period of not less than one year or more than three years. His monthly pension shall be calculated as of his date of participation in the program and shall be accumulated with fund earnings and distributed in a lump sum at retirement. During 2017 the Aggregated Pension Trust Fund transferred \$176,972 to Morgan Stanley for three participants in accordance with a DROP Arrangement. There were no DROP distributions made in 2017. The DROP account balance at December 31, 2017 was \$320,567.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Firemen Pension Plan (cont'd)

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by the Aggregated Pension Board. It is the policy of the Aggregate Pension Board to pursue an investment strategy to obtain a reasonable diversification of investments, which have a ready market for resale. The following was the Board's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Domestic Equity	45.50%
International Equity	9.00%
Fixed Income	40.50%
Real Estate	5.00%
Cash	0.00%

Concentrations

Concentrations are defined as investments held by the Firemen's Pension Plan, other than those issued or explicitly guaranteed by the U.S. Government, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2017, the Firemens' Pension Plan does not hold any equities or non-governmental fixed income securities that comprise more than five percent of total investments.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.64%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The net pension liability was measured as of December 31, 2017, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2017. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The components of the net pension liability of the Firemens' Pension Plan at December 31, 2017 were as follows:

Total Pension Liability	\$ 31,929,710
Plan Fiduciary Net Position	<u>23,692,512</u>
Net Pension Liability	<u><u>\$ 8,237,198</u></u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability - 74.20%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Firemen Pension Plan (cont'd)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) Net Pension Liability (a) - (b)
Balances at 12/31/2016	\$ 28,774,500	\$ 20,150,809	\$ 8,623,691
Service Cost	617,257	-	617,257
Interest Cost	2,165,996	-	2,165,996
Changes of Benefit Terms	-	-	-
Changes for Experience	(324,978)	-	(324,978)
Changes of Assumptions	1,824,790	-	1,824,790
Contributions - employer	-	1,508,983	(1,508,983)
Contributions - member	-	221,637	(221,637)
Net Investment Income	-	2,954,972	(2,954,972)
Benefit Payments, including refunds of member contributions	(1,127,855)	(1,127,855)	-
Administration Expense	-	(16,034)	16,034
Other Changes	-	-	-
Net Changes	<u>3,155,210</u>	<u>3,541,703</u>	<u>(386,493)</u>
Balances at 12/31/2017	<u>31,929,710</u>	<u>23,692,512</u>	<u>8,237,198</u>

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%	
Salary Increases	5.00%	(average, including inflation)
Investment Rate of Return	7.125%	(including inflation)
Postretirement Cost of Living Increase	0.00%	

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	45.50%	5.50% - 7.50%
International Equity	9.00%	4.50% - 6.50%
Fixed Income	40.50%	1.00% - 3.00%
Real Estate	5.00%	4.50% - 6.50%
Cash	0.00%	0.00% - 1.00%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Firemen Pension Plan (cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 7.125%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.125%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u> <u>(6.125%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.125%)</u>	<u>1% Increase</u> <u>(8.125%)</u>
Plan's Net Pension Liability	\$ 11,897,782	\$ 8,237,198	\$ 5,145,947

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$1,259,103. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (538,528)
Changes of assumptions	1,459,832	-
Net difference between projected and actual earnings on pension plan investments	747,270	(1,488,333)
Total	<u>\$ 2,207,102</u>	<u>\$ (2,026,861)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ 138,100
2019	138,102
2020	(96,260)
2021	299
	<u>\$ 180,241</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Police Pension Plan

General Description - The City of Easton Police Pension Plan is a single employer defined benefit plan controlled by the provisions of Pennsylvania 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 moderate distressed level 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.

Plan Membership at December 31, 2017

Inactive Members or Beneficiaries Currently Receiving Benefits	76
Inactive Members Entitled to but not yet Receiving Benefits	0
Active Members	61
Total Members	<u><u>137</u></u>

Benefits Provided

Eligibility

All full-time members of the Bureau of Police join the Plan upon employment.

Normal Retirement

A participant is eligible for normal retirement after attainment of 20 years of service. A participant will be automatically retired upon attainment of age 70.

The normal retirement pension is payable monthly during the participant's lifetime, with payments continuing after the participant's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the participant at the time of the participant's death.

The amount of monthly pension is equal to 50% of average monthly compensation plus an incremental pension of 2.5% times average monthly compensation for each full year of service in excess of 20 years, up to a maximum of 75% of average monthly compensation after 30 years of service.

Average monthly pay is based upon the final rate of pay (1/12th of annual salary plus degree pay, longevity pay, personal day buyback, holiday pay, scheduled shift differential, and acting rank pay for regularly scheduled shifts).

Late Retirement

If a participant continues working after his normal retirement date, his pension does not start until he actually retires. The late retirement benefit is the benefit accrued to the late retirement date.

Disability Retirement

If a participant who has 15 years of service is disabled, he is eligible for a disability pension. The disability pension is equal to the normal retirement pension earned to date.

If a participant who has at least 12 years of service but less than 15 years of service is disabled, he is eligible for a disability pension. He shall receive the portion of the full pension as the period of his service up to the date of his termination bears to 15 years of service.

If a participant who has less than 12 years of service is disabled in the line of duty, he is eligible for a disability pension. He shall receive the portion of the full pension as the period of his service up to the date of termination bears to 20 years of service.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Police Pension Plan (cont'd)

Death Benefits

If a member who is eligible for retirement dies or is killed in service, a death benefit is payable to a surviving spouse or children under age 18 in an amount equal to the 100% of the member's normal retirement benefit.

Vesting

A participant's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension equal to the benefit accrued to the date of termination. A participant must continue contributing to the Plan until they would have reached 20 years.

Accrued Pension

The benefit accrued at any date other than the normal retirement date is equal to the projected normal retirement benefit multiplied by the ratio of the number of years and days of service to date to the total number of years and days of service projected at normal retirement.

Contributions

Members contribute 6.0% of pay (plus \$0.50 per week until age 60).

Member contributions are not credited with interest.

Deferred Retirement Option Program (DROP)

A member with at least 20 years of service but not more than 22 years shall be eligible to enter the DROP. The DROP period cannot exceed three years. The DROP provisions shall follow Act 44 of 2009.

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by the Aggregated Pension Board. It is the policy of the Aggregate Pension Board to pursue an investment strategy to obtain a reasonable diversification of investments, which have a ready market for resale. The following was the Board's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Domestic Equity	45.50%
International Equity	9.00%
Fixed Income	40.50%
Real Estate	5.00%
Cash	0.00%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Police Pension Plan (cont'd)

Concentrations

Concentrations are defined as investments held by the Police Pension Plan, other than those issued or explicitly guaranteed by the U.S. Government, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2017, the Police Pension Plan does not hold any equities or non-governmental fixed income securities that comprise more than five percent of total investments.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.64%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The net pension liability was measured as of December 31, 2017, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2017. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The components of the net pension liability of the Firemens' Pension Plan at December 31, 2017 were as follows:

Total Pension Liability	\$ 42,069,375
Plan Fiduciary Net Position	<u>23,629,747</u>
Net Pension Liability	<u><u>\$ 18,439,628</u></u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability -56.17%

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) Net Pension Liability (a) - (b)
Balances at 12/31/2016	\$ 38,198,434	\$ 20,200,085	\$ 17,998,349
Service Cost	957,879	-	957,879
Interest Cost	2,876,380	-	2,876,380
Changes of Benefit Terms	(210,640)	-	(210,640)
Changes for Experience	2,601,819	-	2,601,819
Changes of Assumptions	-	-	-
Contributions - employer	-	2,510,888	(2,510,888)
Contributions - member	-	314,754	(314,754)
Net Investment Income	-	2,967,235	(2,967,235)
Benefit Payments, including refunds of member contributions	(2,354,497)	(2,354,497)	-
Administration Expense	-	(8,818)	8,818
Other Changes	-	100	(100)
Net Changes	<u>3,870,941</u>	<u>3,429,662</u>	<u>441,279</u>
Balances at 12/31/2017	<u><u>42,069,375</u></u>	<u><u>23,629,747</u></u>	<u><u>18,439,628</u></u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Police Pension Plan (cont'd)

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	5.00% (average, including inflation)
Investment Rate of Return	7.125% (including inflation)
Postretirement Cost of Living Increase	0.00%

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	45.50%	5.50% - 7.50%
International Equity	9.00%	4.50% - 6.50%
Fixed Income	40.50%	1.00% - 3.00%
Real Estate	5.00%	4.50% - 6.50%
Cash	0.00%	0.00% - 1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.125. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.125%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u> <u>(6.125%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.125%)</u>	<u>1% Increase</u> <u>(8.125%)</u>
Plan's Net Pension Liability	\$ 23,964,995	\$ 18,439,628	\$ 13,852,998

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 **PENSION PLANS** (Cont'd)

Aggregate Pension Fund (cont'd)

City of Easton Police Pension Plan (cont'd)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$2,457,819. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 410,118	\$ (184,310)
Changes of assumptions	2,276,592	-
Net difference between projected and actual earnings on pension plan investments	<u>752,434</u>	<u>(1,417,745)</u>
Total	<u>\$ 3,439,144</u>	<u>\$ (1,602,055)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ 385,322
2019	385,324
2020	9,104
2021	78,619
2022	380,923
2023	298,897
2024	<u>298,900</u>
Thereafter	<u>1,837,089</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS

Pennsylvania Municipal Retirement System - Pension Fund

The City of Easton 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. According to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68, PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer "plan fiduciary net position." PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning Fiduciary Net Position balance adjusted for cash flows throughout the year. The "Additional administrative expenses" are the expenses in excess of the "PMRS administrative expenses" (i.e. \$20 per participant expense paid by each plan). The "PMRS investment income" is based upon the regular and excess interest used to credit accounts annually. The "Market value investment income" reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of the underlying retiree liabilities. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office or on their website www.pmrs.state.pa.us

Summary of Significant Accounting Policies

Basis of Accounting

The plan's financial statements are prepared on 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. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals every three years. In years for which an appraisal is not performed, real estate investments and investments that do not have an established market value are reported at estimated fair values. Purchases and sales of investments are recorded on a trade-date basis.

Funding Standards and State Aid

The City is required to make annual contributions to the plan pursuant to Act 205, which specifies minimum funding standards for municipal pension plans in the Commonwealth. Act 205 requires the Borough to budget and contribute to the plan the minimum municipal obligation, which includes both the normal cost of the plan and an amortization contribution sufficient to amortize unfunded liabilities by target dates established under the Act.

Act 205 also establishes a general municipal pension system state aid program, financed by a tax on the premiums of casualty and fire insurance policies sold in the Commonwealth. The City is eligible for this aid for its pension plan; however, the ultimate obligation to contribute the minimum municipal obligation to the plans is the City's.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Pension Plan (cont'd)

Plan Membership

Membership of the plan consisted of the following at December 31, 2016:

Inactive employees or beneficiaries currently receiving benefits	72
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>119</u>
Total Members	<u>194</u>

Plan Administration

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.

Benefits Provided

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

Normal Retirement

Accrued Benefit available upon attainment of age 65

Early Retirement

Benefit is available upon attainment of age 55 and 20 years of service

Vesting

A member is 100% vested after 5 years of service

Contributions

No member contributions are required

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by the PMRS Board. The board places greatest emphasis on quality of investments and consistency in return. The following was the System's adopted asset allocation policy as of December 31, 2016:

Asset Class	Target Allocation
Equities (large cap)	25.00%
Equities (small cap)	15.00%
Equities (international)	15.00%
Equities (emerging markets)	10.00%
Fixed Income	15.00%
Real Estate	12.50%
Timber	7.50%

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Pension Plan (cont'd)

Concentrations

Concentrations are defined as investments held by the Pension Plan, other than those issued or explicitly guaranteed by the U.S. Government, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2016, PMRS does not hold any equities or non-governmental fixed income securities that comprise more than five percent of total investments.

Rate of Return

Rates of Return are prepared by using the time-weighted rate of return methodology based upon market values. The Pennsylvania Municipal Retirement Board's total investing portfolio was valued at \$2.151 billion as of December 31, 2016 which was an increase of \$156.9 million from the December 31, 2015 valuation of \$1.994 billion. During the calendar year of 2016, the system recorded a net investment return of \$163.9 million, the annual money-weighted rate of return on pension plans investments, net of plan investment expenses was 8.23%.

Net Pension Liability

The net pension liability was measured as of December 31, 2016, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of December 31, 2015. There was a change to the investment return assumption for municipal assets that decreased from 5.50% to 5.25% effective for the measurement date December 31, 2016. The components of the net pension liability at December 31, 2016 were as follows:

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2015	\$ 21,197,303	\$ 19,340,603	\$ 1,856,700
Service Cost	848,268	-	848,268
Interest Cost	1,178,884	-	1,178,884
Changes of Benefit Terms	-	-	-
Changes for Experience	190,772	-	190,772
Changes of Assumptions	446,833	-	446,833
Contributions - employer	-	389,598	(389,598)
Contributions - PMRS assessment	-	4,080	(4,080)
Contributions - member	-	483,853	(483,853)
Net Investment Income	-	1,121,050	(1,121,050)
Market Value Investment Income	-	582,692	(582,692)
Benefit Payments	(1,013,067)	(1,013,067)	-
Administration Expense	-	(3,840)	3,840
Additional Administrative Expense	-	(54,921)	54,921
Net Changes	<u>1,651,690</u>	<u>1,509,445</u>	<u>142,245</u>
Balances at 12/31/2016	<u>22,848,993</u>	<u>20,850,048</u>	<u>1,998,945</u>

Actuarial Assumptions

The total pension liability in the January 1, 2015 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	3.00%-8.30% (including inflation)
Investment Rate of Return	5.25%
Postretirement Cost of Living Increase	Adhoc

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 PENSION PLANS (Cont'd)

Pension Plan (cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 5.25%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u> <u>(4.25%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.25%)</u>	<u>1% Increase</u> <u>(6.25%)</u>
Plan's Net Pension Liability	\$ 3,986,629	\$ 1,998,945	\$ 316,729
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability			
	83.95%	91.25%	98.50%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$735,131. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 152,618	\$ -
Changes of assumptions	454,631	(222,938)
Net difference between projected and actual earnings on pension plan investments	<u>300,544</u>	<u>-</u>
Total	<u>\$ 907,793</u>	<u>\$ (222,938)</u>

Year ended December 31:

2017	\$ 254,121
2018	254,121
2019	141,340
2020	<u>35,273</u>
	<u>\$ 684,855</u>

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 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 departments. Non-uniformed employees existing retirees were grandfathered into benefits, no active employees are eligible for benefits. Membership of the plan consisted of the following as of January 1, 2015:

	<u>Fire</u>	<u>Police</u>	<u>Non-Uniform</u>	<u>Total</u>
Active Participants	43	59	-	102
Vested Former Members	-	7	-	7
Retired Participants	10	16	17	43
	<u>53</u>	<u>82</u>	<u>17</u>	<u>152</u>

Summary of Benefits - Police

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

Medical Benefits Payable upon Retirement: Eligible retirees may participate in the employer's group medical plan unless the retired officer is eligible for similar coverage, without premium sharing, through other employment or through the employment of his/her spouse. While under age 65, the group medical plan includes full hospitalization, health benefits, prescription drug, dental and vision. While under age 65, the City sponsored plan to be provided to retirees is the plan that is made available to the active members of the bargaining unit and shall automatically change if the plan for active members is changed. At age 65 and older, the City provides Medigap

For Officers who retired between 1/1/2012 and 12/31/2014 and were hired prior to January 1, 2006 who retire prior to age 50, the retiree must reimburse the employer for 50% of the premium quoted by the insurance company in order to maintain coverage.

For Officers who retired between 1/1/2012 and 12/31/2014 and were hired prior to January 1, 2006 who retired at age 50 or later, the retiree must reimburse the employer for 40% of the premium quoted by the insurance company in order to maintain coverage.

For Officers who retired between 1/1/2012 and 12/31/2014 hired after January 1, 2006, the retiree must reimburse the employer for 65% of the premium quoted by the insurance company in order to maintain coverage while under age 65. At ages 65 and later, the retiree must reimburse the employer for 65% of the premium..

Effective January 1, 2015, the retiree must reimburse the employer for 40% of the premium quoted by the insurance company in order to maintain coverage while under age 65. At age 65 and older, the City will contribute \$100 a month toward health premiums. The retiree must pay the remaining premium.

Disability: The City will pay 100% of the premium for any officer granted a disability pension because of a job related injury until such officer is eligible for 65 Special and/or Medicare Part B. Spouses of officers granted disability must contribute 40% of the premium.

Medical Benefits Payable upon Death of Active Officer: Surviving spouses and eligible dependents may participate in the employer's group medical plan. While under age 65, the group medical plan includes full hospitalization and health benefits, prescription drug, dental and vision. At ages 65 and older, the City provides Medigap coverage.

For Officers Killed in the Line of Duty, the employer will pay 100% of the premium quoted by the insurance company in order to maintain coverage while the spouse is under age 65. Premium payments will no longer be paid by the City if: 1) The spouse elects not to enroll, 2) The surviving spouse remarries, or 3) The spouse is eligible for Medicare.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 POSTRETIREMENT BENEFITS PLAN (Cont'd)

City of Easton Postretirement Benefit Plan (Cont'd)

Summary of Benefits - Police (Cont'd)

For Officers Killed outside of the Line of Duty, the surviving spouse must pay 100% of the premium quoted by the insurance company in order to maintain coverage until age 65.

Dependents: Spouses are covered under the Plan until age 65. Other dependents are covered as long as they are 18 years old or younger.

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

Summary of Benefits - Fire

Eligibility for Benefits: Benefits are payable for members who retire 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, prescription drug, dental and vision. At age 65 and older, the City provides Medigap coverage.

Retired prior to December 31, 2012:

The retiree must reimburse the employer for a specified percentage of the premium quoted by the insurance company in order to maintain coverage. 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.

Retired after December 31, 2012:

For Firefighters who have 30 or more years of service at retirement, the retiree must pay 35% of the premium. If the retiree has between 20 and 30 years of service, he must pay 60% of the premium. At age 65 and older, the City will contribute \$100 a month toward health premiums. The retiree must pay the remaining premium.

Dependents: Spouses are covered under the Plan indefinitely.

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

Summary of Benefits - Non-Uniformed Employees

Eligibility for Benefits: No active employees are eligible for benefits. Only existing retirees were grandfathered into 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, prescription drug, dental and vision. At age 65 and older, the City provides Medigap coverage.

Retirees pay 100% of the premium quoted by the insurance company in order to maintain 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, 2017

NOTE 11 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

Annual Required Contribution and Net Benefit Obligation - The City's annual post-retirement benefit cost and net benefit obligation for the year ended December 31, 2017 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	<u>\$ 2,701,185</u>	<u>\$ 4,163,566</u>	<u>\$ (82,927)</u>	<u>\$6,781,824</u>
Annual Benefit Cost:				
Annual Required Contribution (ARC)	\$ 428,526	687,257	14,654	1,130,437
Estimated Interest on Net OPEB	121,553	187,360	(3,732)	305,181
Estimated Adjustments to ARC	<u>(165,830)</u>	<u>(255,608)</u>	<u>5,091</u>	<u>(416,347)</u>
Annual OPEB Cost	\$ 384,249	\$ 619,009	\$ 16,013	1,019,271
Contributions Made (Implicit Rate Subsidy - pay-as-you-go)	<u>(85,268)</u>	<u>(141,261)</u>	<u>(32,501)</u>	<u>(259,030)</u>
Estimated Net Benefit Obligation at the end of year	<u>\$ 3,000,166</u>	<u>\$ 4,641,314</u>	<u>\$ (99,415)</u>	<u>\$7,542,065</u>

Interest Rate

4.50%

Salary

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are assumed to be 5.0%

Withdrawal

Table D-1: Rates of withdrawal at selected ages:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	5.5000%	35	2.5000%	50	0.0000%
25	5.0000%	40	1.0000%	55	0.0000%
30	4.0000%	45	0.5000%	60	0.0000%

Mortality

IRS 2017 Static Combined Table for Small Plans.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

Disability

Fire: 1955 United Auto Workers Table

Police: SOA 1987 Group LTD Table - Males, 6-month elimination. 100% of disabilities are assumed to be service-related.

Retirement

Assumed 100% retirement after 30 years of service. Before 30 years of service, the rates for participants eligible to retire

	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
Less than	50	0.0000%	53	5.0000%	57	20.0000%
	50	5.0000%	54	5.0000%	58	20.0000%
	51	5.0000%	55	20.0000%	59	20.0000%
	52	5.0000%	56	20.0000%	60+	100.0000%

Percent of Eligible Retirees Electing Coverage in Plan

Police: 75% are assumed to elect coverage upon retirement. 100% are assumed to elect coverage upon disability. 100% of surviving spouses are assumed to elect coverage upon death of an active officer killed in the Line of Duty. 50% of surviving spouses are assumed to elect coverage upon death of an active officer killed outside

Fire: 75% are assumed to elect coverage.

Vested Former Members: 50% elect coverage at age 62, or current age, if older.

Percent Married at Retirement

60% of employees are assumed to be married and have a spouse covered by the plan at retirement.

Spouse Age

Wives are assumed to be two years younger than their husbands.

Dependents

Non-spouse dependents are either assumed to not have coverage or have negligible costs in the plan.

Per Capita Claims Cost

Making use of weighted averages for various plan designs, the per capita cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

<u>Medical and Prescription Drug Combined (1)</u>		
<u>Age</u>	<u>Males</u>	<u>Females</u>
45-49	\$ 7,364	\$ 10,636
50-54	\$ 9,753	\$ 12,020
55-59	\$ 11,879	\$ 12,578
60-64	\$ 15,502	\$ 14,449

(1) For retirees ages 65 and over, claims cost are assumed to equal the premium.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 POSTRETIREMENT BENEFITS PLAN (Contd.)

City of Easton Postretirement Benefit Plan (Contd.)

Retiree Contributions

Retiree Contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.

Health Care Cost Trend Rate

6.0% in 2017 and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Value of Assets

Equal to the Market Value of Assets

Actuarial Cost Method - Entry Age Normal

Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Participant Data

Based on census information as of January 1, 2017.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 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, 2017

NOTE 12 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 13 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.

NOTE 14 RESTRICTED AND COMMITTED FUND BALANCES

Restricted - The Liquid Fuels and Capital Project Funds are restricted in accordance with state regulations and debt covenant provisions in the total amount of \$6,892,313. The negative fund balance within the Science Fund will be eliminated by anticipated planning funds to be received.

Committed - Funds allocated within Debt Service and Other Special Revenue Funds are committed for future purposes as they are individually established in the total amount of \$926,568.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 16 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.

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 1.95% (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 Dawn Hart at dhart@easton-pa.gov. The Northampton Street and Silk Mill in South Side properties will qualify as KOZ sites in 2017.

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 2nd 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 Dawn Hart at dhart@easton-pa.gov.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EASTON
AGGREGATE PENSION FUND
OFFICERS' AND EMPLOYEES' PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY

<u>Total Pension Liability</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost	\$ 6,482	\$ 14,396	\$ 13,710	\$ 17,966
Interest Cost	612,746	656,144	685,520	713,728
Benefit Payments, including refunds of member contributions	(986,572)	(1,077,707)	(1,105,482)	(1,081,524)
Changes in Benefit Terms	-	-	-	-
Changes in Benefit Experience	(382,462)	-	(10,039)	-
Changes in Benefit Assumptions	603,328	-	-	-
Net Change in total pension liability	(146,478)	(407,167)	(416,291)	(349,830)
Total Pension Liability - Beginning	<u>8,865,883</u>	<u>9,273,050</u>	<u>9,689,341</u>	<u>10,039,171</u>
Total Pension Liability - Ending (a)	<u>\$ 8,719,405</u>	<u>\$ 8,865,883</u>	<u>\$ 9,273,050</u>	<u>\$ 9,689,341</u>
 <u>Plan Net Position</u>				
Contributions - Employer	\$ 827,782	\$ 782,506	\$ 804,861	\$ 524,433
Contributions - Members	7,007	7,288	12,996	20,384
Net Investment Income	645,050	396,395	(123,831)	411,644
Benefit Payments including refunds of member contributions	(986,572)	(1,077,707)	(1,105,482)	(1,081,524)
Administrative Expense	(6,503)	(13,676)	(11,783)	(10,590)
Other Changes	-	-	6,704	920
Net Change in Plan Fiduciary Net Position	\$ 486,764	\$ 94,806	\$ (416,535)	\$ (134,733)
Plan Fiduciary Net Position - Beginning	<u>4,647,159</u>	<u>4,552,353</u>	<u>4,968,888</u>	<u>5,103,621</u>
Plan Fiduciary Net Position - Ending (b)	<u>5,133,923</u>	<u>4,647,159</u>	<u>4,552,353</u>	<u>4,968,888</u>
City's net pension liability - Ending (a) - (b)	<u>\$ 3,585,482</u>	<u>\$ 4,218,724</u>	<u>\$ 4,720,697</u>	<u>\$ 4,720,453</u>
Plan fiduciary net position as a percentage of the total pension liability	58.88%	52.42%	49.09%	51.28%
Covered-employee payroll	\$ 117,832	\$ 143,982	\$ 180,815	\$ 242,604
City's net pension liability as a percentage of covered-employee payroll	3042.88%	2930.04%	2610.79%	1945.74%

CITY OF EASTON
AGGREGATE PENSION FUND
OFFICERS' AND EMPLOYEES' RETIREMENT AND PENSION PLAN
SCHEDULE OF CITY CONTRIBUTIONS

Year	Actuarially Determined Contribution	Contributions From Employer	Contribution Deficiency/ (Surplus)	Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
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	-	-	-
2013	516,830	516,830	-	-	-
2014	524,433	524,433	-	242,604	216.17%
2015	804,861	804,861	-	180,815	445.13%
2016	782,506	782,506	-	143,982	543.47%
2017	827,782	827,782	-	117,832	702.51%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date: 1/1/2015

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Dollar Closed

Remaining Amortization Period: 7 years

Asset Valuation Method: Smoothed value with a corridor of 90% to 110% of market value.

Inflation: 3.00%

Salary Increases: 5.00%

Investment Rate of Return: 7.50%

Retirement Age: Age 65

Mortality: RP2000 Table. This table does not include projected mortality improvements.

Changes in benefit terms: None sine 1/1/2015.

CITY OF EASTON
AGGREGATED PENSION FUND
OFFICERS' AND EMPLOYEES' RETIREMENT AND PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return net of investment expense	14.64%	9.57%	-2.72%

CITY OF EASTON
AGGREGATE PENSION FUND
FIREMENS' PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY

<u>Total Pension Liability</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost	\$ 617,257	\$ 585,056	\$ 557,196	\$ 571,789
Interest Cost	2,165,996	2,046,325	1,943,501	1,900,331
Benefit Payments, including refunds of member contributions	(1,127,855)	(1,439,980)	(1,041,050)	(1,120,697)
Changes in Benefit Terms	-	-	-	-
Changes in Benefit Experience	(324,978)	-	(696,365)	-
Changes in Benefit Assumptions	<u>1,824,790</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in total pension liability	3,155,210	1,191,401	763,282	1,351,423
Total Pension Liability - Beginning	<u>28,774,500</u>	<u>27,583,099</u>	<u>26,819,817</u>	<u>25,326,303</u>
Total Pension Liability - Ending (a)	<u>\$ 31,929,710</u>	<u>\$ 28,774,500</u>	<u>\$ 27,583,099</u>	<u>\$ 26,677,726</u>
 <u>Plan Net Position</u>				
Contributions - Employer	\$ 1,508,983	\$ 1,418,639	\$ 1,415,944	\$ 1,061,666
Contributions - Members	221,637	206,592	215,973	201,891
Net Investment Income	2,954,972	1,849,123	(493,043)	1,483,012
Benefit Payments including refunds of member contributions	(1,127,855)	(1,439,980)	(1,041,050)	(1,120,697)
Administrative Expense	(16,034)	(17,462)	(12,604)	(14,084)
Other Changes	-	-	2,758	920
Net Change in Plan Fiduciary Net Position	\$ 3,541,703	\$ 2,016,912	\$ 87,978	\$ 1,612,708
Plan Fiduciary Net Position - Beginning	<u>20,150,809</u>	<u>18,133,897</u>	<u>18,045,919</u>	<u>16,291,120</u>
Plan Fiduciary Net Position - Ending (b)	<u>23,692,512</u>	<u>20,150,809</u>	<u>18,133,897</u>	<u>17,903,828</u>
 City's net pension liability - Ending (a) - (b)	<u>\$ 8,237,198</u>	<u>\$ 8,623,691</u>	<u>\$ 9,449,202</u>	<u>\$ 8,773,898</u>
 Plan fiduciary net position as a percentage of the total pension liability	74.20%	70.03%	65.74%	67.11%
Covered-employee payroll	\$ 2,918,361	\$ 3,782,072	\$ 3,624,573	\$ 3,081,522
 City's net pension liability as a percentage of covered-employee payroll	282.25%	228.01%	260.70%	284.73%

CITY OF EASTON
AGGREGATE PENSION FUND
FIREMENS' RETIREMENT AND PENSION PLAN
SCHEDULE OF CITY CONTRIBUTIONS

Year	Actuarially Determined Contribution	Contributions From Employer	Contribution Deficiency/ (Surplus)	Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
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	-	-	-
2013	1,073,905	1,073,905	-	-	-
2014	1,061,666	1,061,666	-	3,081,522	34.45%
2015	1,415,944	1,415,944	-	3,624,573	39.07%
2016	1,418,639	1,418,639	-	3,782,072	37.51%
2017	1,508,983	1,508,983	-	2,918,361	51.71%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date: 1/1/2015

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Dollar Closed

Remaining Amortization Period: 12 years

Asset Valuation Method: Smoothed value with a corridor of 90% to 110% of market value.

Inflation: 3.00%

Salary Increases: 5.00%

Investment Rate of Return: 7.50%

Retirement Age: Age 55 and completion of 25 years of service.

Mortality: RP2000 Table. This table does not include projected mortality improvements.

Changes in benefit terms: None sine 1/1/2015.

CITY OF EASTON
AGGREGATE PENSION FUND
FIREMENS' PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return net of investment expense	14.64%	9.57%	-2.72%

CITY OF EASTON
AGGREGATE PENSION FUND
POLICE PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY

<u>Total Pension Liability</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost	\$ 957,879	\$ 848,805	\$ 808,386	\$ 753,083
Interest Cost	2,876,380	2,743,288	2,645,645	2,506,321
Benefit Payments, including				
refunds of member contributions	(2,354,497)	(2,244,052)	(2,141,028)	(2,085,465)
Changes in Benefit Terms	-	-	-	-
Changes in Benefit Experience	(210,640)	-	656,187	-
Changes in Benefit Assumptions	<u>2,601,819</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in total pension liability	3,870,941	1,348,041	1,969,190	1,173,939
Total Pension Liability - Beginning	<u>38,198,434</u>	<u>36,850,393</u>	<u>34,881,203</u>	<u>33,707,264</u>
Total Pension Liability - Ending (a)	<u>\$ 42,069,375</u>	<u>\$ 38,198,434</u>	<u>\$ 36,850,393</u>	<u>\$ 34,881,203</u>
 <u>Plan Net Position</u>				
Contributions - Employer	\$ 2,510,888	\$ 2,246,363	\$ 2,304,171	\$ 1,703,854
Contributions - Members	314,754	292,681	280,296	258,853
Net Investment Income	2,967,235	1,722,920	(495,045)	1,512,997
Benefit Payments including refunds				
of member contributions	(2,354,497)	(2,244,052)	(2,141,028)	(2,085,465)
Administrative Expense	(8,818)	(17,066)	(13,889)	(14,805)
Other Changes	<u>100</u>	<u>100</u>	<u>(1,088)</u>	<u>1,020</u>
Net Change in Plan Fiduciary Net Position	\$ 3,429,662	\$ 2,000,946	\$ (66,583)	\$ 1,376,454
Plan Fiduciary Net Position - Beginning	<u>20,200,085</u>	<u>18,199,139</u>	<u>18,265,722</u>	<u>16,889,268</u>
Plan Fiduciary Net Position - Ending (b)	<u>23,629,747</u>	<u>20,200,085</u>	<u>18,199,139</u>	<u>18,265,722</u>
 City's net pension liability -				
Ending (a) - (b)	<u>\$ 18,439,628</u>	<u>\$ 17,998,349</u>	<u>\$ 18,651,254</u>	<u>\$ 16,615,481</u>
 Plan fiduciary net position as a				
percentage of the total pension liability	56.17%	52.88%	49.39%	52.37%
 Covered-employee payroll	\$ 4,561,549	\$ 4,758,818	\$ 4,755,170	\$ 4,648,695
 City's net pension liability as a				
percentage of covered-employee payroll	404.24%	378.21%	392.23%	357.42%

CITY OF EASTON
AGGREGATE PENSION FUND
POLICE RETIREMENT AND PENSION PLAN
SCHEDULE OF CITY CONTRIBUTIONS

Year	Actuarially Determined Contribution	Contributions From Employer	Contribution Deficiency/ (Surplus)	Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
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	-	-	-
2013	1,684,086	1,684,086	-	-	-
2014	1,703,854	1,703,854	-	4,648,695	36.65%
2015	2,304,171	2,304,171	-	4,755,170	48.46%
2016	2,246,363	2,246,363	-	4,758,818	47.20%
2017	2,510,888	2,510,888	-	4,561,549	55.04%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date: 1/1/2015

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Dollar Closed

Remaining Amortization Period: 15 years

Asset Valuation Method: Smoothed value with a corridor of 90% to 110% of market value.

Inflation: 3.00%

Salary Increases: 5.00%

Investment Rate of Return: 7.50%

Retirement Age: Age 55 and completion of 25 years of service.

Mortality: RP2000 Table. This table does not include projected mortality improvements.

Changes in benefit terms: None sine 1/1/2015.

CITY OF EASTON
AGGREGATE PENSION FUND
POLICE PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return net of investment expense	14.64%	9.57%	-2.72%

CITY OF EASTON
PMRS PENSION FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIO
LAST THREE FISCAL YEARS

	Measurement Year Ending 12/31/2016	Measurement Year Ending 12/31/2015	Measurement Year Ending 12/31/2014
Total Pension Liability			
Service cost (beginning of year)	\$ 848,268	\$ 816,351	\$ 824,389
Interest (includes interest on service cost)	1,178,884	1,132,977	1,110,052
Changes of benefit terms	-	-	-
Differences between expected and actual experience	190,772	-	(445,874)
Changes of assumptions	446,833	145,747	-
Transfers	-	-	-
Benefit payments, including refunds of member contributions	<u>(1,013,067)</u>	<u>(1,522,955)</u>	<u>(612,033)</u>
Net change in total pension liability	\$ 1,651,690	\$ 572,120	\$ 876,534
Total pension liability - beginning	<u>21,197,303</u>	<u>20,625,183</u>	<u>19,748,649</u>
Total pension liability - ending (a)	<u>\$ 22,848,993</u>	<u>\$ 21,197,303</u>	<u>\$ 20,625,183</u>
Plan fiduciary net position			
Contributions - employer	\$ 389,598	\$ 401,999	\$ 314,675
Contributions - PMRS Assessment	4,080	4,000	-
Contributions - member	483,853	427,351	422,268
PMRS investment income	1,121,050	1,035,687	1,069,742
Market value investment income	582,692	(901,900)	(563,895)
Transfers	-	-	-
Benefit payments, including refunds of member contributions	<u>(1,013,067)</u>	<u>(1,522,955)</u>	<u>(612,033)</u>
PMRS administrative expense	(3,840)	(300)	(3,780)
Additional Administrative expense	<u>(54,921)</u>	<u>(43,176)</u>	<u>(41,025)</u>
Net change in plan fiduciary net position	\$ 1,509,445	\$ (599,294)	\$ 585,952
Plan fiduciary net position - beginning	<u>19,340,603</u>	<u>19,939,897</u>	<u>19,353,945</u>
Plan fiduciary net position - ending (b)	<u>\$ 20,850,048</u>	<u>\$ 19,340,603</u>	<u>\$ 19,939,897</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,998,945</u>	<u>\$ 1,856,700</u>	<u>\$ 685,286</u>
Plan fiduciary net position as a percentage of the total pension liability	91.25%	91.24%	96.68%
Covered - employee payroll	\$ 6,565,031	\$ 6,194,675	\$ 6,261,571
City's net pension liability as a percentage of covered employee payroll	30.45%	29.97%	10.94%

CITY OF EASTON
PMRS PENSION FUND
SCHEDULE OF CITY CONTRIBUTIONS
LAST THREE FISCAL YEARS

<u>Year</u>	Actuarially Determined Contribution	Contribution from Employer	Contribution Deficiency/ (Excess)	Covered Employee Payroll	Contributions as a % of Payroll
2014	\$302,232	\$314,675	-\$12,443	\$6,261,571	5.03%
2015	\$405,659	\$405,999	-\$340	\$6,194,675	6.55%
2016	\$391,711	\$383,678	-\$1,967	\$6,565,031	6.00%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the Actuarially Determined Contribution for calendar year 2016 is based upon the January 1, 2013 actuarial valuation.

A summary of the key assumptions and methods used to determine the contribution rates:

- Actuarial Cost Method: Entry Age
- Amortization Period: Level dollar based upon the amortization periods in Act 205
- Asset valuation method: Based upon the municipal reserves
- Discount Rate: 5.50%
- Inflation: 3.0%
- Salary increases: age related scale with merit and inflation component
- COLA increases: 3.0% for those eligible for a COLA
- Pre-Retirement Mortality: Males - RP-2000 with 1 year set back, Females - RP-2000 with 5 year set back
- Post-Retirement Mortality: Sex distinct RP-2000 Combined Healthy Mortality

For a complete listing of all assumptions and methods, please refer to the PDF file entitled PMRS 2015 Assumptions and Methods for GASB.

Other Information: Plan Changes - please refer to the Plan's Act 205 filing.

CITY OF EASTON
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL - Entry Age (b))		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
Fire	1/1/2017	\$ -	\$ 4,415,363		\$ 4,415,363	0%	\$ 2,902,355	152.13%
	1/1/2014	\$ -	\$ 4,170,814		\$ 4,170,814	0%	\$ 2,673,253	156.02%
	1/1/2011	\$ -	\$ 5,857,160		\$ 5,857,160	0%	\$ 2,670,094	219.36%
Police	1/1/2017	\$ -	\$ 5,628,381		\$ 5,628,381	0%	\$ 4,230,176	133.05%
	1/1/2014	\$ -	\$ 4,268,058		\$ 4,268,058	0%	\$ 3,910,888	109.13%
	1/1/2011	\$ -	\$ 5,374,465		\$ 5,374,465	0%	\$ 3,589,015	149.75%
Non-Uniform Employees	1/1/2017	\$ -	\$ 238,702		\$ 238,702	0%	\$ -	N/A
	1/1/2014	\$ -	\$ 26,665		\$ 26,665	0%	\$ -	N/A
	1/1/2011	\$ -	\$ 157,349		\$ 157,349	0%	\$ -	N/A
Total	1/1/2017	\$ -	\$ 10,282,446		\$ 10,282,446	0%	\$ 7,132,531	144.16%
	1/1/2014	\$ -	\$ 8,465,537		\$ 8,465,537	0%	\$ 6,584,141	128.57%
	1/1/2011	\$ -	\$ 11,388,974		\$ 11,388,974	0%	\$ 6,259,109	181.96%

SUPPLEMENTARY INFORMATION

CITY OF EASTON
SCHEDULE OF CAPITAL PROJECT FUNDS
DECEMBER 31, 2017

CITY OF EASTON
SCHEDULE OF SPECIAL REVENUE FUNDS
DECEMBER 31, 2017

	TOTAL	Federal Grants	Restlawn	Recreation	Open Space	Donations Fund	Authority CDBG	City Hall
<u>Assets</u>								
Cash & Equivalents	\$ 747,450	\$ 219,012	\$ 30,458	\$ 96,680	\$ 237,321	\$ 28,607	\$ -	\$ 135,372
Due From Other Funds	112,998	-	-	112,998	-	-	-	-
Other Assets	295,028	-	280,000	15,028	-	-	-	-
Total Assets	\$ 1,155,476	\$ 219,012	\$ 310,458	\$ 224,706	\$ 237,321	\$ 28,607	\$ -	\$ 135,372
<u>Liabilities and Fund Balances</u>								
Accrued Salaries	1,225	-	-	1,225	-	-	-	-
Accounts Payable	20,901	-	-	17,476	-	3,425	-	-
Deferred Revenue	2,668	2,668	-	-	-	-	-	-
Due Other Funds	294,554	221,114	-	40,413	-	11,535	-	21,492
Other Liabilities	16,134	-	-	9,246	-	-	-	6,888
Fund Balance	819,994	(4,770)	310,458	156,346	237,321	13,647	-	106,992
Total Liabilities and Fund Balances	\$ 1,155,476	\$ 219,012	\$ 310,458	\$ 224,706	\$ 237,321	\$ 28,607	\$ -	\$ 135,372
<u>Revenues</u>								
Taxes	\$ 1,067,256	\$ -	\$ -	\$ 1,067,256	\$ -	\$ -	\$ -	\$ -
Rental Income	79,432	-	-	-	-	-	-	79,432
Pension Aid Allocation	43,747	-	-	43,747	-	-	-	-
Recreation Charges	233,439	-	-	233,439	-	-	-	-
General Charges	64,288	-	-	-	64,288	-	-	-
Federal-Community Development	747,871	-	-	-	-	-	747,871	-
Federal Subsidies	190,503	190,503	-	-	-	-	-	-
Private Sector Contributions	4,500	-	-	-	-	4,500	-	-
Miscellaneous	3,825	-	-	3,825	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-	-
Total Revenues	\$ 2,434,861	\$ 190,503	\$ -	\$ 1,348,267	\$ 64,288	\$ 4,500	\$ 747,871	\$ 79,432
<u>Expenditures</u>								
General - Government	\$ 157,757	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 157,757
Public Works - Roads	-	-	-	-	-	-	-	-
Public Safety	194,583	191,158	-	-	1,267,392	-	3,425	-
Recreation	1,267,392	-	-	-	-	-	-	-
Urban Development-								
Housing	174,416	-	-	-	-	-	174,416	-
Other	573,455	-	-	-	-	-	573,455	-
Transfers (Out)	76,899	-	-	76,899	-	-	-	-
Total Expenditures	\$ 2,444,502	\$ 191,158	\$ -	\$ 1,344,291	\$ -	\$ 3,425	\$ 747,871	\$ 157,757
Excess/(Deficiency) Revenues	\$ (9,641)	\$ (655)	\$ -	\$ 3,976	\$ 64,288	\$ 1,075	\$ -	\$ (78,325)
Over/(Under) Expenditures								
Fund Balance Beginning of Year	829,635	(4,115)	310,458	152,370	173,033	12,572	-	\$ 185,317
Fund Balance End of Year	\$ 819,994	\$ (4,770)	\$ 310,458	\$ 156,346	\$ 237,321	\$ 13,647	\$ -	\$ 106,992

PALMER AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

40 SOUTH FOURTH STREET
EASTON, PENNSYLVANIA 18042

CARL E. FLEMING, C.P.A.
KEITH E. FLEMING, C.P.A.

SCOTT R. FLEMING

ELLSWORTH C. PALMER, C.P.A., R.M.A.
(*Founder 1937-1965*)

TELEPHONE (610) 258-0401

FAX (610) 252-9040

E-Mail: office@palmerandcompany.net

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND
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, 2017, 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 September 28, 2018. 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
September 28, 2018

Russo and Company