



**CITY OF EASTON
EASTON, PENNSYLVANIA**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2021

CITY OF EASTON
TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
- Statement of Net Position	18
- Statement of Activities	19
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	20
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	21
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22
- Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	23
- Budgetary Comparison Statement - General Fund	24
- Statement of Net Position - Proprietary Funds	25
- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	26
- Statement of Cash Flows - Proprietary Funds	27
- Statement of Net Position - Fiduciary Funds	28
- Statement of Changes in Net Position - Fiduciary Funds	29
NOTES TO FINANCIAL STATEMENTS	30

CITY OF EASTON
TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
- Schedule of Changes in the City's Net Pension Liability, Investment Returns, and Related Ratios - Non-Uniformed Pension Plan	90
- Schedule of Changes in the City's Net Pension Liability, Investment Returns, and Related Ratios - Fire Pension Plan	91
- Schedule of Changes in the City's Net Pension Liability, Investment Returns, and Related Ratios - Police Pension Plan	92
- Schedule of Changes in the City's Net Pension Liability, Investment Returns, and Related Ratios - PMRS Pension Plan	93
- Schedule of City Pension Contributions	94
- Schedule of Changes in the City's Net OPEB Liability, Investment Returns, and Related Ratios	96
OTHER SUPPLEMENTAL INFORMATION – COMBINING STATEMENTS	
- Combining Balance Sheet – Nonmajor Governmental Funds	97
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	98
SINGLE AUDIT	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	99
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	101
Schedule of Expenditures of Federal Awards	104
Notes to Schedule of Expenditures of Federal Awards	105
Schedule of Findings and Recommendations	106
Management's Response to Findings and Recommendations	109



INDEPENDENT AUDITOR'S REPORT

May 30, 2023

To the Honorable Mayor and City Council
City of Easton
Easton, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Easton ("the City"), Easton, Pennsylvania, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Easton, Easton, Pennsylvania, as of December 31, 2021, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Easton Suburban Water Authority (discretely presented component unit), which represent 99%, 100%, and 95%, respectively, of the assets, net position, and revenues of the discretely presented component units. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Easton Suburban Water Authority, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government*

To the Honorable Mayor and City Council
City of Easton

Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.

To the Honorable Mayor and City Council
City of Easton

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 17 and the schedule of changes in the City's net pension liability, investment returns, and related ratios – Non-Uniformed Pension Plan; schedule of changes in the City's net pension liability, investment returns, and related ratios – Fire Pension Plan; schedule of changes in the City's net pension liability, investment returns, and related ratios – Police Pension Plan; schedule of changes in the City's net pension liability, investment returns, and related ratios – PMRS Plan; schedule of the City pension contributions; and schedule of changes in the City's net OPEB liability, investment returns and related ratios pages 90 through 96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the 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's basic financial statements. The combining nonmajor governmental fund financial statements and schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental fund financial statements and schedule of expenditures of federal awards 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

To the Honorable Mayor and City Council
City of Easton

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 nonmajor governmental fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the 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 May 30, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED
DECEMBER 31, 2021**

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, 2021. 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, 2021. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

Within the government-wide financial statements, the City's position increased by \$6,766,143 for the year ended December 31, 2021.

In 2021, the City encountered an increase in 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:

General Fund – The City is reporting \$2,391,342 of revenues over expenditures in the General Fund.

Adopted Fund Balance Policy – In December 2011, the City Council adopted a financial policy to achieve certain fund balances by December 2016. In 2021, the City has continued its efforts to meet these minimum levels. Specifically:

- *Minimum General Fund Balance* – "A minimum of 10% or \$3.46 million of budgeted general fund revenues" for 2021. As of December 31, 2021, the City had a General Fund total fund balance of \$6.01 million.
- *Minimum Health Benefit Insurance Fund Balance* – "Maintain a balance of \$3.0 million" by year end 2021. As of December 31, 2021, the Health Care Fund had a balance of \$1.02 million.
- *Minimum Liability Benefit Insurance Fund Balance* – "Maintain a balance of \$1.00 million" by 2021. As of December 31, 2021, the City had a Liability Insurance Fund balance of \$(0.81) million.

These highlights are detailed in the information provided below.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of four parts:

CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021

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

The 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. In addition to these required elements, an optional supplementary section is included with other statements that provide particulars about nonmajor 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:

- *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.
- *Proprietary Funds Statements* offer short-term and long-term financial information about the activities the City operates like a business.
- *Fiduciary Funds Statements* reflect activities involving resources that are held by the City as a trustee or agent for the benefit of others, including the City's retirement plans. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the City's programs.

Table A-1 summarizes the major features of the City's financial statements, including the area of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Table A-1
Major Features of the City of Easton's
Government-wide and Fund Financial Statements

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as education, administration, and community services	Activities the City operates similar to private business – Sewer operations	Instances in which the City is the trustee or agent to someone else's resources – Pension Fund and Private-purpose Trust Fund
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows	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 focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources measurement focus
Type of asset/liability information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

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 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 be recorded when they are earned and expenses be 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 and the Easton Parking Authority.

In the entity-wide financial statements, the City's activities are divided into two categories:

- *Governmental* activities – This includes 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 – This generally charges a fee to customers to help cover the cost of services.

Net position of the governmental activities differs from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Capital assets are reported as expenditures when financial resources (monies) are extended to purchase or build assets in the fund financial statements. Likewise, the financial resources that may have been borrowed are considered revenue when they are received in the fund financial

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

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 - 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 - 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 express purposes. Some funds are required by state law, while 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 fund financial statements:

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

CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021

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 \$123.65 million at December 31, 2021. Of this amount, \$71.26 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 2021 financial statements.

Table A-2
Condensed Statement of Net Position
Fiscal Years Ended December 31, 2021 and 2020

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Current assets	\$ 29,088,954	\$ 27,696,327	\$1,907,969	\$2,077,555	\$ 30,996,923	\$ 29,773,882
Noncurrent assets	74,571,209	60,435,848	-	-	74,571,209	60,435,848
Deferred outflow of resources	18,081,949	13,036,220	-	-	18,081,949	13,036,220
Total Assets/Deferred Outflows	<u>121,742,112</u>	<u>101,168,395</u>	<u>1,907,969</u>	<u>2,077,555</u>	<u>123,650,081</u>	<u>103,245,950</u>
Current and other liabilities	13,463,014	10,984,535	485,900	1,119,620	13,948,914	12,104,155
Noncurrent liabilities	110,491,210	105,243,597	151,769	-	110,642,979	105,243,597
Deferred inflow of resources	18,449,001	12,055,154	-	-	18,449,001	12,055,154
Total liabilities/deferred inflows	<u>142,403,225</u>	<u>128,283,286</u>	<u>637,669</u>	<u>1,119,620</u>	<u>143,040,894</u>	<u>129,402,906</u>
Net position: net investment in capital assets	4,490,732	18,215,476	-	-	4,490,732	18,215,476
Restricted net position	10,528,149	6,461,151	-	-	10,528,149	6,461,151
Unrestricted net position	(35,679,994)	(51,791,518)	1,270,300	957,935	(34,409,694)	(50,833,583)
Total net position (deficit)	<u>\$(20,661,113)</u>	<u>\$(27,114,891)</u>	<u>\$1,270,300</u>	<u>\$ 957,935</u>	<u>\$(19,390,813)</u>	<u>\$(26,156,956)</u>

CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021

The following statement of activities represents changes in net assets for the year ended December 31, 2021. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

Table A-3
Changes in Net Position
Fiscal Years Ended December 31, 2021 and 2020

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Program revenues:						
Charges for services	\$ 11,882,634	\$ 10,458,146	\$11,310,668	\$10,927,301	\$ 23,193,302	\$ 21,385,447
Grants and contributions	7,050,445	7,757,715	-	86,748	7,050,445	7,844,463
General revenues:						
Taxes	22,172,860	19,164,587	-	-	22,172,860	19,164,857
Miscellaneous and interest revenues	6,568,481	213,005	-	-	6,568,481	213,005
Total revenues	47,674,420	37,593,453	11,310,668	11,014,049	58,985,088	48,607,772
Expenses:						
General government	6,058,865	6,221,234	-	-	6,058,865	6,221,234
Public safety	24,824,867	19,226,823	-	-	24,824,867	19,226,823
Health and Welfare	107,343	89,871	-	-	107,343	89,871
DPW – sanitation	282,263	2,017,379	-	-	282,263	2,017,379
DPW – highways	1,566,270	2,021,708	-	-	1,566,270	2,021,708
Other public works	3,718,901	1,041,450	-	-	3,718,901	1,041,450
Culture – recreation	1,763,072	1,300,397	-	-	1,763,072	1,300,397
Community development	917,119	3,715,777	-	-	917,119	3,715,777
Debt service	2,182,421	2,485,099	-	-	2,182,421	2,485,099
Sewage treatment and wastewater operations	-	-	10,797,824	9,997,742	10,797,824	9,997,742
Total expenses	41,421,121	38,119,738	10,797,824	9,997,742	52,218,945	48,117,480
Change in net position before transfers/special items	6,253,299	(526,285)	111,886	1,016,307	6,766,143	490,022
Transfers	200,479	945,060	(200,479)	(945,060)	-	-
Sale of assets	-	1,120,986	-	-	-	1,120,986
Refund prior year expenses	-	4,519	-	-	-	4,519
Change in net position	6,453,778	1,544,280	312,365	71,247	6,766,143	1,615,527
Net position, beginning	(27,114,891)	(27,818,238)	957,935	45,755	(26,156,956)	(27,772,483)
Fund allocation establishment of Sewer Service Operations Fund	-	(840,933)	-	840,933	-	-
Net position, ending	<u>\$(20,661,113)</u>	<u>\$(27,114,891)</u>	<u>\$ 1,270,300</u>	<u>\$ 957,935</u>	<u>\$(19,390,813)</u>	<u>\$(26,156,956)</u>

CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021

Total expenses for all programs in 2021 were \$52.22 million. The expenses cover a range of services, with the largest two being public safety at \$24.82 million or 47.54% and general government at \$6.06 million or 11.60% of expenses.

Capital Assets

The City's investment in capital assets at December 31, 2021, net of accumulated depreciation, was \$71.26 million. Capital assets consist primarily of land, land improvements, buildings and improvements, vehicles and equipment, infrastructure, water treatment plant, and construction in progress. Table A-4 is a summary of capital assets as of December 31, 2021 and 2020.

Table A-4
Capital Assets
December 31, 2021 and 2020

	Governmental Activities	
	2021	2020
Land, easements, rights of way	\$ 13,830,996	\$ 13,830,996
Construction in progress	8,949,251	-
Land improvements	1,660,165	1,447,428
Buildings and improvements	44,526,127	44,351,064
Vehicles and equipment	14,612,158	12,387,977
Infrastructure	4,802,113	3,431,689
Water Treatment Plant	20,590,352	20,590,352
Accumulated depreciation	<u>(37,706,907)</u>	<u>(35,603,658)</u>
 Total Capital Assets (net of depreciation)	 <u>\$ 71,264,255</u>	 <u>\$ 60,435,848</u>

A majority of the changes between 2021 and 2020 is related to the construction in progress which is related to the 4th Street Parking Garage project.

Long-term Debt

At December 31, 2021, the City had \$65.89 million of debt outstanding, including bonds, and notes. This was a net decrease of \$5.11 million from the previous year. Other obligations include post-employment benefits, lease agreements, accrued vacation pay and sick leave and the net pension liability. Total other obligations were \$43.80 million at December 31, 2020 and \$47.73 million at December 31, 2021.

Additional information on the City's long-term debt can be found in the disclosures to the financial statements starting on page 50.

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

**Table A-5
Summary of Outstanding Debt
December 31, 2021 and 2020**

	Governmental Activities	
	2021	2020
PENSION DEBT OBLIGATIONS		
Bond Series of 2007	\$ 5,078,000	\$ 6,142,000
Bond Series A of 2015	1,535,000	1,540,000
CAPITAL DEBT OBLIGATIONS		
Taxable Note of 2014	133,857	218,072
Series B of 2015	275,000	360,000
Series C of 2015	3,385,000	3,470,000
Series A of 2017	7,305,000	7,760,000
Series B of 2017	1,305,000	1,365,000
Series of 2020	42,930,000	43,405,000
Series A of 2019	-	6,750,000
Series of 2021 Lease Note	3,950,000	-
	<u>\$ 65,896,857</u>	<u>\$ 71,010,072</u>
Total Outstanding Bonds and Notes		

Bond Rating

The City had its credit rating reviewed by S&P Rating Services. Citing continued strong financial management practices, the City's credit rating is A.

GOVERNMENTAL FUNDS

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

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

Total Governmental fund revenues

Governmental fund revenues by source for the years ended December 31, 2021 and 2020 were as follows. Table A-6 also presents changes from 2021 to 2020.

**Table A-6
Revenues by Source, Total Governmental Funds
December 31, 2021 and 2020**

	2021	2020	Changes from 2020 to 2021
Taxes	\$ 22,413,107	\$ 19,266,854	\$ 3,146,253
Licenses	1,432,699	370,401	1,062,298
Fines and forfeits	2,025,591	848,903	1,176,688
Interest and rents	59,017	1,916,237	(1,857,220)
Intergovernmental	6,362,198	7,757,715	(1,395,517)
Charges for services	10,580,499	7,322,605	3,257,894
Miscellaneous	4,229,028	213,005	4,016,023
Total revenues	\$ 47,102,139	\$ 37,695,720	\$ 9,406,419

Governmental fund revenues totaled \$47.10 million for the year ended December 31, 2021. This is an increase from 2020, primarily due an increase in tax collections and charges for services.

Governmental fund expenditures

Governmental fund expenditures by function for the years ended December 31, 2021 and 2020 were as follows. Table A-7 also presents changes from 2021 to 2020.

**Table A-7
Expenditures by Function, Total Governmental Funds
December 31, 2021 and 2020**

	2021	2020	Changes from 2020 to 2021
General government	\$ 7,021,469	\$ 5,188,692	\$ 1,832,777
Public safety	23,693,266	19,096,673	4,596,593
Health and welfare	107,343	89,871	17,472
Public works - sanitation	388,964	1,949,225	(1,560,261)
Public works - highway and streets	2,431,408	2,138,650	292,758
Public works - other	9,269,609	374,338	8,895,271

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

	2021	2020	Changes from 2020 to 2021
(cont'd)			
Public works - stormwater	3,078,929	584,346	2,704,591
Culture - recreation	1,464,923	1,074,701	390,222
Urban development	917,119	3,719,918	(2,802,779)
Debt service	7,278,163	2,894,200	4,383,963
Total Expenses	\$ 55,651,193	\$ 37,110,614	\$ 18,540,579

Governmental fund expenditures totaled \$55.65 million for the year ended December 31, 2021, an increase of 50.0% from 2020. The increases can mostly be attributed to public works expenditure increases related to the 4th Street Parking Garage project.

Governmental fund balances and proprietary/internal net position

Table A-8 reflects ending balances for governmental funds and net position for proprietary funds at December 31, 2021 and 2020.

**Table A-8
Ending Fund Balances, Governmental Funds
Net Assets, Proprietary/Internal Funds
December 31, 2021 and 2020**

	2021		2020	
	Governmental Funds	Proprietary/internal Funds	Governmental Funds	Proprietary/internal Funds
General	\$ 6,006,474	\$ -	\$ 5,830,374	\$ -
Debt service	313,666	-	818,231	-
Capital projects	4,464,015	-	13,114,198	-
Liquid fuels	2,043,563	-	2,244,719	-
Major grants	(64,662)	-	115,960	-
Other governmental	3,776,592	-	2,518,875	-
Sewer treatment	-	97,737	-	45,755
Sewer services	-	1,172,563	-	912,180
Total	\$ 16,548,593	\$ 1,270,300	\$ 24,642,357	\$ 957,935

The City's governmental funds reported a combined fund balance of \$16.55 million at December 31, 2021. The City's proprietary/internal funds reported a combined fund balance of \$2.26 million at December 31, 2021.

In 2021, \$5.54 million or 33.3% 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.

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

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 which 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.

Economic Condition and Outlook

The vision of the City's future growth and prosperity is built upon its proud history as a cultural, commercial, industrial, and transportation hub. The City is now poised as a destination for tourists, artists, investors, residents, and a wide range of businesses including retail, restaurant, and service. With over 28,000 residents within a region of 862,000, the City is a full-service working community that maintains industrial areas with light manufacturing, distribution and warehousing, a vibrant downtown, and growing residential neighborhoods.

While the pandemic did - and continues to - impact residents and businesses, Easton's City Council and Administration have made significant moves to bolster local business through specific business retention efforts, including the addition of expanded outdoor dining and the unveiling of a new, outdoor Winter Village festival. Meanwhile, the City's attractions, including the Crayola Experience, Siegel Museum, Nurture Nature, National Canal Museum, Northampton County Historical and Genealogical Museum, and the State Theatre, continue to draw over 800,000 visitors annually. The City offers superior accessibility, enticing small-town ambiance, town-to-gown connections with the prestigious Lafayette College, plus diverse cultural and various historic attractions. Businesses affiliated with the arts will find the City in the midst of resurgence. An active and growing local artist community is complemented by galleries displaying nationally recognized work. Much of the revitalization of The City'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 (GEDP). In addition, the City's restaurants have become a major draw in the Lehigh Valley as many are considered among the finest the region has to offer in their respective cuisines. The combination of these events, attractions and the diverse restaurant scene has created a destination for visitors on weekdays, weeknights, and throughout the weekend.

Furthermore, the City has leveraged significant public funding to spur economic growth and activity within the private sector. These public dollars (\$80 million + over the course of the last decade) have helped to bring in more than \$700 million in total investment to the City. While the private sector has

**CITY OF EASTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – UNAUDITED (CONT'D)
DECEMBER 31, 2021**

made significant investment, and is expected to continue to do so with more than \$400 million of additional investment expected in the next three years, the public and non-profit sectors continue to support the City's growth with pro-business policies and a dedicated cast of local organizations promoting business investment in the City.

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 and Finance Director, City of Easton, 123 South Third Street, Easton, Pennsylvania, 18042.

**CITY OF EASTON
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 18,060,948	\$ 2,702,522	\$ 20,763,470	\$ 9,818,108
Taxes receivable	3,112,288	-	3,112,288	-
Accounts and other receivables	4,686,846	2,402,836	7,089,682	3,449,480
Prepaid expenses	31,483	-	31,483	239,101
Inventory	-	-	-	968,690
Internal balances	3,197,389	(3,197,389)	-	-
Total Current Assets	29,088,954	1,907,969	30,996,923	14,475,379
NONCURRENT ASSETS:				
Lease agreement, net	-	-	-	400,000
Depreciable capital assets, net	48,484,008	-	48,484,008	107,886,913
Land, easements, rights of way	13,830,996	-	13,830,996	498,075
Construction-in-progress	8,949,251	-	8,949,251	-
Net pension asset	3,306,954	-	3,306,954	-
Total Noncurrent Assets	74,571,209	-	74,571,209	108,784,988
TOTAL ASSETS	103,660,163	1,907,969	105,568,132	123,260,367
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows relating to pensions	12,928,104	-	12,928,104	-
Deferred outflows relating to OPEB	2,208,979	-	2,208,979	-
Deferred amount of refundings	2,944,866	-	2,944,866	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,081,949	-	18,081,949	-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	3,619,112	145,261	3,764,373	1,491,969
Accrued interest	267,989	-	267,989	1,094
Bonds and notes payable	2,709,317	-	2,709,317	2,465,105
Capital leases	423,768	-	423,768	-
Unavailable revenues	6,442,828	340,639	6,783,467	-
Total Current Liabilities	13,463,014	485,900	13,948,914	3,958,168
NONCURRENT LIABILITIES:				
Bonds and notes payable	63,187,540	-	63,187,540	22,470,584
Capital leases	452,898	-	452,898	-
Compensated absences	8,635,025	151,769	8,786,794	-
Net OPEB liability	11,748,090	-	11,748,090	-
Net pension liability	26,467,657	-	26,467,657	-
Total Noncurrent Liabilities	110,491,210	151,769	110,642,979	22,470,584
TOTAL LIABILITIES	123,954,224	637,669	124,591,893	26,428,752
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows relating to pensions	15,205,806	-	15,205,806	-
Deferred inflows relating to OPEB	3,243,195	-	3,243,195	-
TOTAL DEFERRED INFLOWS OF RESOURCES	18,449,001	-	18,449,001	-
NET POSITION:				
Net investment in capital assets	4,490,732	-	4,490,732	83,370,521
Restricted for capital projects	4,464,015	-	4,464,015	-
Restricted for debt service	313,666	-	313,666	-
Restricted for state and federal provisions	2,043,563	-	2,043,563	-
Restricted for insurance	399,951	-	399,951	-
Restricted for net pension asset	3,306,954	-	3,306,954	-
Unrestricted (deficit)	(35,679,994)	1,270,300	(34,409,694)	13,461,094
TOTAL NET POSITION	\$ (20,661,113)	\$ 1,270,300	\$ (19,390,813)	\$ 96,831,615

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

**CITY OF EASTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position (Deficit)			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
GOVERNMENTAL ACTIVITIES:								
General government	\$ 6,058,865	\$ 5,508,135	\$ 6,053,284	\$ -	\$ 5,502,554	\$ -	\$ 5,502,554	\$ -
Public safety	24,824,867	153,110	220,772	-	(24,450,985)	-	(24,450,985)	-
Health and welfare	107,343	80,957	-	-	(26,386)	-	(26,386)	-
Public works - highways and streets	1,566,270	38,593	659,408	-	(868,269)	-	(868,269)	-
Public works - sanitation	282,263	3,437,295	-	-	3,155,032	-	3,155,032	-
Public works - other	3,718,901	2,532,615	-	-	(1,186,286)	-	(1,186,286)	-
Culture and recreation	1,763,072	131,929	40,000	-	(1,591,143)	-	(1,591,143)	-
Community development	917,119	-	10,550	-	(906,569)	-	(906,569)	-
Debt service	2,182,421	-	66,431	-	(2,115,990)	-	(2,115,990)	-
TOTAL GOVERNMENTAL ACTIVITIES	41,421,121	11,882,634	7,050,445	-	(22,488,042)	-	(22,488,042)	-
BUSINESS-TYPE ACTIVITIES:								
Sewer treatment and wastewater operations	10,797,824	11,310,668	-	-	-	512,844	512,844	-
TOTAL BUSINESS-TYPE ACTIVITIES	10,797,824	11,310,668	-	-	-	512,844	512,844	-
TOTAL PRIMARY GOVERNMENT	\$ 52,218,945	\$ 23,193,302	\$ 7,050,445	\$ -	(22,488,042)	512,844	(21,975,198)	-
COMPONENT UNITS:								
Water and parking authorities	\$ 16,052,984	\$ 19,203,284	\$ -	\$ -	-	-	-	3,150,300
GENERAL REVENUES								
Taxes:								
Real estate taxes					21,126,996	-	21,126,996	-
Real estate transfer taxes					695,237	-	695,237	-
Local services taxes					350,627	-	350,627	-
Franchise fees					130,564	-	130,564	-
Fines and forfeitures					2,025,591	-	2,025,591	-
Investment earnings					59,032	-	59,032	-
Grants and contributions not restricted to specific programs					19,201	-	19,201	-
Miscellaneous					4,334,093	-	4,334,093	-
Transfers					200,479	(200,479)	-	-
TOTAL GENERAL REVENUES					28,941,820	(200,479)	28,741,341	-
CHANGE IN NET POSITION					6,453,778	312,365	6,766,143	3,150,300
CAPITAL VALUE PROVIDED BY DEVELOPERS					-	-	-	1,306,809
NET POSITION (DEFICIT), BEGINNING OF YEAR					(27,114,891)	957,935	(26,156,956)	92,374,506
NET POSITION (DEFICIT), END OF YEAR					\$ (20,661,113)	\$ 1,270,300	\$ (19,390,813)	\$ 96,831,615

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

CITY OF EASTON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General Fund	Debt Service Fund	Liquid Fuels Fund	Capital Project Funds	Major Grant Funds	ARPA Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ -	\$ 4,480,698	\$ 2,473,088	\$ 16,787,352	\$ 852,507	\$ 10,332,903	\$ 2,717,500	\$ 37,644,048
Taxes receivable	3,112,288	-	-	-	-	-	-	3,112,288
Accounts receivable	2,784,623	5,716	-	81,550	514,022	-	1,015,896	4,401,807
Other receivables	-	-	-	-	-	-	210,000	210,000
Due from other funds	29,275,112	3,617,628	43,780	1,955,350	60,648	-	1,108,332	36,060,850
Prepaid expenditures	3,464	-	-	8,945	-	-	-	12,409
TOTAL ASSETS	35,175,487	8,104,042	2,516,868	18,833,197	1,427,177	10,332,903	5,051,728	81,441,402
LIABILITIES								
Bank overdraft	23,608,604	-	-	-	-	-	-	23,608,604
Accounts payable	446,183	-	27,480	1,993,545	40,443	-	4,304	2,511,955
Accrued salaries and benefits	77,031	-	-	-	-	-	11,999	89,030
Other current liabilities	409,296	-	-	-	386,122	-	123,740	919,158
Due to other funds	3,141,186	7,790,376	445,825	12,366,692	1,065,274	3,890,075	1,135,093	29,834,521
Unearned revenue	-	-	-	-	-	6,442,828	-	6,442,828
TOTAL LIABILITIES	27,682,300	7,790,376	473,305	14,360,237	1,491,839	10,332,903	1,275,136	63,406,096
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - property taxes/assessments	1,486,713	-	-	-	-	-	-	1,486,713
TOTAL DEFERRED INFLOWS OF RESOURCES	1,486,713	-	-	-	-	-	-	1,486,713
FUND BALANCES (DEFICIT)								
Nonspendable	3,464	-	-	8,945	-	-	-	12,409
Restricted	399,951	313,666	2,043,563	4,464,015	-	-	-	7,221,195
Assigned	-	-	-	-	-	-	3,776,592	3,776,592
Unassigned (deficit)	5,603,059	-	-	-	(64,662)	-	-	5,538,397
TOTAL FUND BALANCES (DEFICIT)	\$ 6,006,474	\$ 313,666	\$ 2,043,563	\$ 4,472,960	\$ (64,662)	\$ -	\$ 3,776,592	\$ 16,548,593

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

CITY OF EASTON
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
DECEMBER 31, 2021

TOTAL GOVERNMENTAL FUND BALANCES	\$ 16,548,593
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:

Depreciable capital assets, net	\$ 48,484,008	
Land	13,830,996	
Construction in progress	<u>8,949,251</u>	71,264,255

The net pension asset is not a financial resource and is not reported in the funds.	3,306,954
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Some of the City's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	1,486,713
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Internal Service Funds are used to charge the costs of certain activities, such as insurance. The net position has been included in governmental activities.	991,708
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Issuance of debt resulted in deferred charges which will be amortized over the life of new debt but do not represent current rights.	2,944,866
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	(8,635,025)	
Net OPEB liability	(11,748,090)	
Net pension liability	(26,467,657)	
Accrued interest payable	(267,989)	
Capital lease obligations	(876,666)	
Bonds and notes payable, including unamortized premium	<u>(65,896,857)</u>	(113,892,284)

Deferred outflows and inflows of resources related to the City's net pension asset and liability and net OPEB liability do not represent current resources or uses of resources and, therefore, are not reported in the funds. Deferred outflows and inflows consist of the following:

Deferred outflows of resources:		
Deferred outflows relating to pensions	12,928,104	
Deferred outflows relating to OPEB	2,208,979	
Deferred inflows of resources:		
Deferred inflows relating to pensions	(15,205,806)	
Deferred inflows relating to OPEB	<u>(3,243,195)</u>	<u>(3,311,918)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (20,661,113)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EASTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Debt Service Fund	Liquid Fuels Fund	Capital Project Funds	Major Grant Funds	ARPA Funds	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 20,900,768	\$ 254,075	\$ -	\$ -	\$ -	\$ -	\$ 1,258,264	\$ 22,413,107
Licenses and permits	1,432,699	-	-	-	-	-	-	1,432,699
Fines, forfeits, and costs	2,025,591	-	-	-	-	-	-	2,025,591
Interest, dividends, and rents	46,608	-	1,600	392	10,417	-	-	59,017
Intergovernmental revenues	1,545,734	66,431	659,408	-	160,550	3,890,075	40,000	6,362,198
Charges for services/fees	8,107,901	-	-	572,297	-	-	297,346	8,977,544
Stormwater runoff charges	-	-	-	-	-	-	1,602,955	1,602,955
Miscellaneous revenue/other	587,821	-	-	3,532,707	107,831	-	669	4,229,028
TOTAL REVENUES	34,647,122	320,506	661,008	4,105,396	278,798	3,890,075	3,199,234	47,102,139
EXPENDITURES								
Current:								
General government	4,565,630	-	-	779,106	16,957	1,500,000	159,776	7,021,469
Public safety	21,869,491	-	-	1,767,154	56,621	-	-	23,693,266
Health and welfare	107,343	-	-	-	-	-	-	107,343
Public works - highways and streets	1,566,954	-	862,164	-	2,290	-	-	2,431,408
Public works - sanitation	282,263	-	-	106,701	-	-	-	388,964
Public works - stormwater	2,637,348	-	-	53,212	-	-	388,369	3,078,929
Public works - other	686,970	-	-	8,576,425	6,214	-	-	9,269,609
Culture and recreation	-	-	-	-	-	-	1,464,923	1,464,923
Urban development	539,781	-	-	-	377,338	-	-	917,119
Debt service	-	7,113,163	-	-	-	-	-	7,113,163
Debt issuance costs	-	165,000	-	-	-	-	-	165,000
TOTAL EXPENDITURES	32,255,780	7,278,163	862,164	11,282,598	459,420	1,500,000	2,013,068	55,651,193
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,391,342	(6,957,657)	(201,156)	(7,177,202)	(180,622)	2,390,075	1,186,166	(8,549,054)
OTHER FINANCING SOURCES (USES)								
Sale of assets	-	-	-	-	-	-	89,811	89,811
Current refinancing debt service	-	(3,750,000)	-	-	-	-	-	(3,750,000)
Notes issued from refunding	-	3,915,000	-	-	-	-	-	3,915,000
Transfers in	751,110	6,288,092	-	1,535,964	-	-	51,019	8,626,185
Transfers out	(2,966,352)	-	-	(3,000,000)	-	(2,390,075)	(69,279)	(8,425,706)
TOTAL OTHER FINANCING SOURCES (USES)	(2,215,242)	6,453,092	-	(1,464,036)	-	(2,390,075)	71,551	455,290
NET CHANGES IN FUND BALANCES	176,100	(504,565)	(201,156)	(8,641,238)	(180,622)	-	1,257,717	(8,093,764)
FUND BALANCES, BEGINNING OF YEAR	5,830,374	818,231	2,244,719	13,114,198	115,960	-	2,518,875	24,642,357
FUND BALANCES (DEFICIT), END OF YEAR	\$ 6,006,474	\$ 313,666	\$ 2,043,563	\$ 4,472,960	\$ (64,662)	\$ -	\$ 3,776,592	\$ 16,548,593

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

CITY OF EASTON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (8,093,764)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$12,931,956) exceeded depreciation expense (\$2,103,549) in the current period. 10,828,407

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (240,247)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any affect on net position. Also, governmental funds report the effect of bond premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Bond and note principal repayments	\$ 9,028,215	
Note proceeds	(3,915,000)	
Capital lease repayments	485,881	
Accrued interest	(13,393)	
Amortization of bond refunding	<u>(169,080)</u>	5,416,623

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences (5,525,265)

Internal Service Funds are used to charge the costs of certain activities, such as insurance. The increase (decrease) in net position has been allocated within governmental activities. 823,413

In the statement of activities, pension and OPEB expense reflects the change in net pension liability (asset) and net OPEB liability, net of deferrals. In the government funds, however, pension and OPEB expenditures reflect payments made to fund the pension and OPEB plans. This is the amount by which the change in net pension liability and net OPEB liability and related deferrals exceed pension and OPEB contributions during the year. 3,244,611

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 6,453,778

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

CITY OF EASTON
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUE			
Taxes	\$ 20,323,471	\$ 20,900,768	\$ 577,297
Licenses and permits	1,645,850	1,432,699	(213,151)
Fines, forfeits, and costs	2,008,190	2,025,591	17,401
Interest, dividends, and rents	30,000	46,608	16,608
Intergovernmental revenues	2,213,670	1,545,734	(667,936)
Charges for services/fees	13,961,325	8,107,901	(5,853,424)
Miscellaneous revenue/other	182,165	587,821	405,656
TOTAL REVENUE	<u>40,364,671</u>	<u>34,647,122</u>	<u>(5,717,549)</u>
EXPENDITURES			
Current:			
General government	4,477,716	4,565,630	(87,914)
Public safety	21,926,083	21,869,491	56,592
Health and welfare	110,830	107,343	3,487
Public works - highways and streets	1,529,325	1,566,954	(37,629)
Public works - sanitation	318,053	282,263	35,790
Public works - stormwater	2,637,494	2,637,348	146
Public works - other	794,875	686,970	107,905
Urban development	550,744	539,781	10,963
TOTAL EXPENDITURES	<u>32,345,120</u>	<u>32,255,780</u>	<u>89,340</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>8,019,551</u>	<u>2,391,342</u>	<u>(5,628,209)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	751,110	751,110
Transfers out	(3,251,172)	(2,966,352)	284,820
TOTAL OTHER FINANCING USES	<u>(3,251,172)</u>	<u>(2,215,242)</u>	<u>1,035,930</u>
NET CHANGE IN FUND BALANCE	4,768,379	176,100	(4,592,279)
FUND BALANCE, BEGINNING OF YEAR	<u>5,830,374</u>	<u>5,830,374</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 10,598,753</u>	<u>\$ 6,006,474</u>	<u>\$ (4,592,279)</u>

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

CITY OF EASTON
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2021

	Enterprise Fund			Internal Service Funds			
	Sewer Treatment Plant Fund	Sewer Services Fund	Total Enterprise Funds	Health Benefit Insurance Fund	Liability Insurance Fund	Unemployment Insurance Fund	Total Internal Service Funds
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 2,171,989	\$ 530,533	\$ 2,702,522	\$ 3,970,455	\$ 5,528	\$ 49,521	\$ 4,025,504
Due from other funds	51,982	260,383	312,365	567,848	98,026	-	665,874
Intergovernmental receivable	1,062,922	1,339,914	2,402,836	-	-	-	-
Other receivable	-	-	-	-	75,039	-	75,039
Prepaid expenditures	-	-	-	19,074	-	-	19,074
TOTAL ASSETS	3,286,893	2,130,830	5,417,723	4,557,377	178,593	49,521	4,785,491
LIABILITIES AND NET POSITION							
CURRENT LIABILITIES:							
Accounts payable	131,867	-	131,867	98,969	-	-	98,969
Accrued salaries payable	13,394	-	13,394	-	-	-	-
Due to other funds	2,892,126	617,628	3,509,754	3,435,376	259,438	-	3,694,814
Compensated absences	151,769	-	151,769	-	-	-	-
TOTAL LIABILITIES	3,189,156	617,628	3,806,784	3,534,345	259,438	-	3,793,783
DEFERRED INFLOWS OF RESOURCES:							
Unavailable revenue - sewer use charges	-	340,639	340,639	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	340,639	340,639	-	-	-	-
NET POSITION (DEFICIT):							
Restricted for health benefits	-	-	-	1,023,032	-	-	1,023,032
Restricted for liability insurance	-	-	-	-	919,155	-	919,155
Restricted for unemployment insurance	-	-	-	-	-	49,521	49,521
Unrestricted (deficit)	97,737	1,172,563	1,270,300	-	(1,000,000)	-	(1,000,000)
TOTAL NET POSITION (DEFICIT)	\$ 97,737	\$ 1,172,563	\$ 1,270,300	\$ 1,023,032	\$ (80,845)	\$ 49,521	\$ 991,708

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

CITY OF EASTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Enterprise Fund			Internal Service Funds			
	Sewer Treatment Plant Fund	Sewer Services Fund	Total Enterprise Funds	Health Benefit Insurance Fund	Liability Insurance Fund	Unemployment Insurance Fund	Total Internal Service Funds
OPERATING REVENUES							
Sewer treatment charges	\$ 5,340,122	\$ -	\$ 5,340,122	\$ -	\$ -	\$ -	\$ -
Sewer use charges	-	5,883,798	5,883,798	-	-	-	-
Fund allocations	-	-	-	5,146,694	754,097	-	5,900,791
Pension aid allocation	86,748	-	86,748	-	-	-	-
Participant contributions	-	-	-	707,448	-	-	707,448
TOTAL OPERATING REVENUES	<u>5,426,870</u>	<u>5,883,798</u>	<u>11,310,668</u>	<u>5,854,142</u>	<u>754,097</u>	<u>-</u>	<u>6,608,239</u>
OPERATING EXPENSES							
Health claim payments	-	-	-	4,784,025	-	-	4,784,025
Liability/unemployment insurance	-	-	-	-	1,013,172	2,898	1,016,070
Wastewater operations	-	5,370,954	5,370,954	-	-	-	-
Sewage treatment plant operations	5,426,870	-	5,426,870	-	-	-	-
TOTAL OPERATING EXPENSES	<u>5,426,870</u>	<u>5,370,954</u>	<u>10,797,824</u>	<u>4,784,025</u>	<u>1,013,172</u>	<u>2,898</u>	<u>5,800,095</u>
OPERATING INCOME (LOSS)	<u>-</u>	<u>512,844</u>	<u>512,844</u>	<u>1,070,117</u>	<u>(259,075)</u>	<u>(2,898)</u>	<u>808,144</u>
NONOPERATING REVENUES (EXPENSES)							
Interest income	-	-	-	-	15	-	15
Refund of prior year expenses	-	-	-	-	15,254	-	15,254
TOTAL NONOPERATING REVENUE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,269</u>	<u>-</u>	<u>15,269</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>-</u>	<u>512,844</u>	<u>512,844</u>	<u>1,070,117</u>	<u>(243,806)</u>	<u>(2,898)</u>	<u>823,413</u>
Transfers in	51,982	-	51,982	-	-	-	-
Transfers out	<u>-</u>	<u>(252,461)</u>	<u>(252,461)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	51,982	260,383	312,365	1,070,117	(243,806)	(2,898)	823,413
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>45,755</u>	<u>912,180</u>	<u>957,935</u>	<u>(47,085)</u>	<u>162,961</u>	<u>52,419</u>	<u>168,295</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 97,737</u>	<u>\$ 1,172,563</u>	<u>\$ 1,270,300</u>	<u>\$ 1,023,032</u>	<u>\$ (80,845)</u>	<u>\$ 49,521</u>	<u>\$ 991,708</u>

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

CITY OF EASTON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 11,534,559	\$ -
Receipts from other governments	(1,092,028)	-
Cash received from funds allocations	-	5,900,791
Participant contributions	-	703,484
Payments to suppliers for goods and services	(10,794,783)	-
Payments for insurance and claims	-	(6,540,764)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(352,252)</u>	<u>63,511</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from other funds	2,453,740	3,455,167
Transfers to other funds	(252,461)	-
Other revenues (expenses)	-	15,254
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>2,201,279</u>	<u>3,470,421</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest	-	15
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>-</u>	<u>15</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,849,027	3,533,947
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>853,495</u>	<u>491,557</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,702,522</u></u>	<u><u>\$ 4,025,504</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 512,844	\$ 808,144
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
(Increase) Decrease in assets and deferred outflows of resources:		
Accounts receivable	(1,178,776)	-
Other receivables	-	(3,964)
Prepaid items	-	3,830
Increase (Decrease) in liabilities and deferred inflows of resources:		
Accounts payable	(18,623)	(743,779)
Compensated absences	21,664	-
Other current liabilities	-	(720)
Unavailable revenue - sewer user charges	310,639	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (352,252)</u></u>	<u><u>\$ 63,511</u></u>

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

CITY OF EASTON
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2021

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 1,427,057	\$ 170,958
Investments, at fair value:		
Fixed income funds	5,089,327	-
Corporate stocks	56,182,683	-
Mutual funds	<u>16,363,467</u>	<u>2,507,685</u>
TOTAL ASSETS	<u><u>\$ 79,062,534</u></u>	<u><u>\$ 2,678,643</u></u>
 LIABILITIES AND NET POSITION		
LIABILITIES:		
Loan payable	<u>\$ -</u>	<u>\$ 301,435</u>
TOTAL LIABILITIES	<u>-</u>	<u>301,435</u>
 NET POSITION:		
Held in trust for pension benefits and other purposes	<u>79,062,534</u>	<u>2,377,208</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 79,062,534</u></u>	<u><u>\$ 2,678,643</u></u>

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

CITY OF EASTON
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Aggregated Pension Fund</u>	<u>Private-Purpose Trust Fund</u>
ADDITIONS		
Contributions:		
Employer contributions	\$ 5,954,973	\$ -
Employee contributions	703,851	-
Other sources	265	-
Total Contributions	<u>6,659,089</u>	<u>-</u>
Investment income:		
Interest and dividends	1,068,932	52,383
Net increase in fair value of investments	9,309,920	253,342
Total Investment Income	<u>10,378,852</u>	<u>305,725</u>
NET ADDITIONS	<u>17,037,941</u>	<u>305,725</u>
DEDUCTIONS		
Benefits and other distributions	5,224,401	-
Administrative expenses	55,275	145,714
Contribution refund	10,144	-
Loan interest expense	<u>-</u>	<u>7,137</u>
TOTAL DEDUCTIONS	<u>5,289,820</u>	<u>152,851</u>
CHANGE IN NET POSITION	11,748,121	152,874
NET POSITION, BEGINNING OF YEAR	<u>67,314,413</u>	<u>2,224,334</u>
NET POSITION, END OF YEAR	<u><u>\$ 79,062,534</u></u>	<u><u>\$ 2,377,208</u></u>

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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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 accounting principles generally accepted in the United States of America (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 ensure 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 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 GAAP, 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 discretely presented 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:

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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, 2021 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, 2021 and is presented as a discrete component unit.

The condensed combining statement of net position as of December 31, 2021 is as follows:

	Easton Suburban Water Authority	Easton Parking Authority	Total
ASSETS			
Current Assets	\$ 13,934,166	\$ 541,213	\$ 14,475,379
Noncurrent Assets	108,301,524	483,464	108,784,988
Total Assets	<u>122,235,690</u>	<u>1,024,677</u>	<u>123,260,367</u>
LIABILITIES			
Current Liabilities	3,258,964	699,204	3,958,168
Noncurrent, Long-term Debt	22,124,734	345,850	22,470,584
Total Liabilities	<u>25,383,698</u>	<u>1,045,054</u>	<u>26,428,752</u>
NET POSITION			
Net Investment in Capital Assets	83,232,907	137,614	83,370,521
Unrestricted (Deficit)	13,619,085	(157,991)	13,461,094
Total Net Position	<u>96,851,992</u>	<u>(20,377)</u>	<u>96,831,615</u>
Total Net Position and Liabilities	<u>\$ 122,235,690</u>	<u>\$ 1,024,677</u>	<u>\$ 123,260,367</u>

The condensed combining statement of revenues, expenses, and changes in net position as of December 31, 2021 are as follows:

	Easton Suburban Water Authority	Easton Parking Authority	Total
OPERATING REVENUES			
Parking Garage and Lot Revenues	\$ -	\$ 913,599	\$ 913,599
Water System Revenues	16,374,151	-	16,374,151
Total Operating Revenue	<u>16,374,151</u>	<u>913,599</u>	<u>17,287,750</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(cont'd)	Easton Suburban Water Authority	Easton Parking Authority	Total
OPERATING EXPENSES			
Parking Related Admin and Direct Operating	-	1,010,804	1,010,804
Water System Related Admin and Direct Operating	9,932,444	-	9,932,444
Depreciation/Amortization	3,358,398	-	3,358,398
Total Operating Expenses	13,290,842	1,010,804	14,301,646
Net Operating Income	3,083,309	(97,205)	2,986,104
Non-Operating Revenues (Expenses)	164,196	-	164,196
Changes in Net Position	3,247,505	(97,205)	3,150,300
Capital Value Provided by Developers	1,306,809	-	1,306,809
Beginning Net Position	92,297,678	76,828	92,374,506
Ending Net Position (Deficit)	\$ 96,851,992	\$ (20,377)	\$ 96,831,615

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 2021 covering operating and debt service costs was \$2,738,958. Complete financial statements of the EAJSA can be obtained from the EAJSA administration office at 50-A South Delaware Drive, Easton, PA.

Service Agreement

The Sewage Treatment Service Agreement, dated as of April 1, 1988, as amended (the "Service Agreement") between the EAJSA 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 EAJSA, prescribes the allocation among the Participating Municipalities of treatment capacity in the plant, the adoption of EAJSA 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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on their 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. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consists of accumulated resources that do not meet the definition of "net investment in capital assets" or "restricted."

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.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It accounts for all financial resources of the City except those resources required to be accounted for in another fund. The general tax revenues of the City, as well as other resources received and not designated for a specific purpose, are accounted for in the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for accumulation of resources for, and payment of, general long-term debt principal and interest.

Liquid Fuels Fund – The Liquid Fuels Fund accounts for revenues received from the Municipal Liquid Fuels Program. Expenditures consist of projects to support construction, reconstruction, maintenance and repair of public roads or streets.

Capital Projects Funds – The Capital Projects Funds is maintained to account for the use of debt proceeds and certain grants dedicated to capital purchases.

Major Grants Funds – The Major Grants Funds accounts for revenues received from grants.

ARPA Fund – The ARPA Fund accounts for revenues received from the Local Fiscal Recovery Funds related to the COVID-19 Pandemic.

The City reports the following major enterprise funds:

Sewer Treatment Fund – The Sewer Treatment Fund accounts for the sewage service operations and is intended to be self-supporting through user charges.

Sewer Services Fund – The Sewer Services Fund accounts for the wastewater service operations and is intended to be self-supporting through user charges.

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 Insurance Fund, Liability Insurance Fund and Unemployment Insurance Fund which receives fund transfers from the General, Sewer and Recreation Funds for the costs of health, liability, and unemployment insurance.

Fiduciary Funds

Private Purpose Trust – Account for the revenues and expenditures of the Hugh Moore Park Charitable Trust.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Aggregated Pension Fund – Used to account for assets held by the City in a trustee capacity for the future payment of retirement payments to employees.

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 below.

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

Fund financial statements – All Governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the entity-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements for governmental funds.

Like the entity-wide statements, all Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of revenues, expenses, and changes in net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In the Fund Financial Statements, Governmental 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.

All Proprietary Funds utilize the accrual basis of accounting. The Internal Service Funds manage the health, liability, and unemployment insurance costs related to governmental-type funds have been included in the net position of the governmental activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

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.

Fiduciary funds are reported using the economic resources measurement focus.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxes Receivable

Taxes receivable are as follows:

General Fund	
Real Estate Taxes	\$ 634,928
Per Capita Taxes	565,532
Earned Income and Real Estate Transfer Taxes	<u>1,911,828</u>
Total Taxes Receivables	<u>\$ 3,112,288</u>

Property Taxes

Based upon assessed valuations by Northampton County, the City's real estate valuation for taxation purposes was \$359,436,500, the City's Department of Finance bills and collects the City's property taxes. The schedule for property taxes levied for year ended December 31, 2021 is as follows:

The municipal tax rate for all purposes in 2021 was 24.950 Mills.

General Purposes	16.300
Debt Purposes	5.570
Recreation Purposes	<u>3.080</u>
Total Tax Rate	<u>24.950 Mills</u>

Prior to March 7	2% discount period
March 8 to August 1	Base payment period
After August 1	Penalty period

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

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 activities column in the government-wide financial statements. Capital assets are defined 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 and 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 \$8,635,025 in the Governmental Activities. A portion of compensated absences reported by the Business Activities of \$151,769. 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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Fund Balance Classifications

Fund balances are classified 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 spendable amounts.

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% of budget revenues. In addition, the policy states:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- The Health Care Fund should maintain a balance of at least \$3,000,000. As summarized further in this audit, the City assigned \$905,338 of the General Fund balance to the Health Care Fund in 2022.
- The Liability and Casualty Fund should maintain a balance of at least \$1,000,000. As also shown in this audit, the City assigned \$565,170 of the General Fund balance to the Liability Fund in 2022.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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

The City 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.

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information was obtained from the Actuary Report conducted by Conrad Siegel. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The single employer plan is not funded by the City.

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 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 Fund and does not present budgetary comparisons for Debt

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont'd)

Service, Liquid Fuels, Capital Project, Major Grants, and ARPA 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.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2021, the General Fund incurred expenditures in excess of appropriations in the following functions:

General government	\$	87,914
Public works - highways and streets	\$	37,629

The excess expenditures were covered by revenues exceeding budgeted amounts and savings in other expenditure line items.

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, 2021, the bank balance of the City's deposits with financial institutions was \$25,805,172 compared to the carrying amount of \$22,361,485. The difference is primarily caused by items in-transit and outstanding checks. Of the City's deposits, \$25,305,172 was exposed to custodial risk which includes

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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

- 1) Short-term obligations of the Federal government or its agencies or instrumentalities.
- 2) 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.
- 3) 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.
- 4) 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).
- 5) 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 with 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

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND 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.

<u>Private-Purpose Trust Fund</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents		
Charles Schwab Cash and Bank Sweep	\$ 170,958	\$ 170,958
Total Cash and Cash Equivalents	<u>\$ 170,958</u>	<u>\$ 170,958</u>
Mutual Funds		
Corporate Bonds	\$ 826,339	\$ 890,242
Corporate Stocks	938,909	1,617,443
Total Investments	<u>\$ 1,765,248</u>	<u>\$ 2,507,685</u>

Permitted investments for municipal pension plans are defined in 20 Pa. C.S. Chapter 73:

- 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;
- 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;

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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

- Deposits in savings accounts or time deposits of share accounts of institutions insured by F.D.I.C.;
- Real estate in Pennsylvania, with court approval;
- Mutual funds;
- Corporate bonds; and
- Stocks.

Investments are recorded at fair value. In establishing the fair value of investments, the City uses the following hierarchy. The lowest level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

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, 2021:

	<u>Fair Value</u>	<u>Level 1</u>
Cash and Cash Equivalents		
Total Cash and Cash Equivalents	<u>\$ 1,427,057</u>	<u>\$ 1,427,057</u>
Investments presented at cost		
Common and Preferred Stock - Equities	\$ 56,182,683	\$ 56,182,683
Mutual Funds	16,363,467	16,363,467
Fixed income securities:		
Government/Municipal Securities	3,062,308	3,062,308
Corporate Bonds	<u>2,027,019</u>	<u>2,027,019</u>
Total Investments	<u>\$ 77,635,477</u>	<u>\$ 77,635,477</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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

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.

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, 2021 the bank balance of the Plan's deposits with financial institutions including cash equivalents was \$1,427,057. The Aggregated Pension Fund's deposits of \$1,177,057 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 the 5% of total investments. The Fiduciary Funds have no policy regarding concentration of credit risk.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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

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 Morgan Stanley 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 mutual funds. The Aggregated Pension Fund has no policy regarding exposure to foreign currency risk.

NOTE 4 DEFERRED OUTFLOW AND INFLOW OF RESOURCES

In addition to assets, the statement of net 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 two 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 in 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 \$2,944,866. The other item is the deferred outflows of resources related to the City's pension and OPEB plans for December 31, 2021 in the total amount of \$15,137,083.

In addition to liabilities, the statement of net 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 government funds report unavailable revenues from property taxes. This amount of \$1,486,713 is deferred and recognized as an inflow of resources in the period that the amount becomes available. The other items are reported on the government-wide

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 4 DEFERRED OUTFLOW AND INFLOW OF RESOURCES (cont'd)

Statement of Net Position representing the difference between expected and actual experience, actual earnings and assumptions in the pension and OPEB plans in the total amount of \$18,449,001.

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2021 is as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated			
Land, Easements, Rights of Way	\$ 13,830,996	\$ -	\$ 13,830,996
Construction in Progress	-	8,949,251	8,949,251
Total Capital Assets Not Depreciated	<u>13,830,996</u>	<u>8,949,251</u>	<u>22,780,247</u>
Capital Assets Depreciated:			
Land Improvements	1,447,428	212,737	1,660,165
Buildings and Improvements	44,351,064	175,063	44,526,127
Vehicles and Equipment	12,387,977	2,224,181	14,612,158
Infrastructure	3,431,689	1,370,424	4,802,113
Leased Water Plant Assets	20,590,352	-	20,590,352
Total Depreciated Capital Assets	<u>82,208,510</u>	<u>3,982,405</u>	<u>86,190,915</u>
Accumulated Depreciation	35,603,658	2,103,549	37,706,907
Total Capital Assets Being Depreciated, Net	<u>46,605,152</u>	<u>1,878,856</u>	<u>48,484,008</u>
Total Net Capital Assets	<u>\$ 60,435,848</u>	<u>\$ 10,828,107</u>	<u>\$ 71,264,255</u>

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

Governmental Activities	\$ 904,527
Public Safety	652,100
Public works - highways and streets	248,773
Culture and recreation	<u>298,149</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 2,103,549</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

	<u>Due From</u>	<u>Due To</u>
<u>Governmental</u>		
General Fund	\$ 3,141,186	\$ 29,275,112
Debt Service Fund	7,790,376	3,617,628
Liquid Fuels Fund	445,825	43,780
Capital Projects Fund	12,366,692	1,955,350
Major Grant Funds	1,065,274	60,648
ARPA Fund	3,890,075	-
Other Governmental Funds	1,135,093	1,108,332
<u>Proprietary</u>		
Sewage Treatment Plant Fund	2,892,126	51,982
Sewer Service Fund	617,628	260,383
Internal Service Funds	<u>3,694,814</u>	<u>665,874</u>
Total	<u>\$ 37,039,089</u>	<u>\$ 37,039,089</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".

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 751,110	\$ 2,966,352
Debt Service Fund	6,288,092	-
Capital Projects Fund	1,535,964	3,000,000
ARPA Fund	-	2,390,075
Other Governmental Funds	51,019	69,279
Sewer Treatment Plan Fund	51,982	-
Sewer Service Fund	<u>-</u>	<u>252,461</u>
	<u>\$ 8,678,167</u>	<u>\$ 8,678,167</u>

These transfers are initiated in the normal course of operation to address individual fund needs throughout the year.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT

A summary of changes in debt obligations for the year ended December 31, 2021 is as follows:

Governmental Activities

Type of Debt	Balance 01/01/21	Additions	Decreases	Balance 12/31/21	Amounts Due Within One Year
Pension Debt Obligations	\$ 7,682,000	\$ -	\$ (1,069,000)	\$ 6,613,000	\$ 1,145,000
Capital Debt Obligations	63,328,072	3,915,000	(7,959,215)	59,283,857	1,564,317
Capitalized Lease Debt	1,362,547	-	(485,881)	876,666	423,768
Post-Employment Benefits	11,728,715	19,375	-	11,748,090	-
Compensated Absences	3,109,760	5,525,265	-	8,635,025	-
Net Pension Liability	27,603,727	-	(1,136,070)	24,467,657	-
Total	<u>\$114,814,821</u>	<u>\$ 9,459,640</u>	<u>\$(10,650,166)</u>	<u>\$113,624,295</u>	<u>\$ 3,133,085</u>

Business-Type Activities

Type of Debt	Balance 01/01/21	Additions	Decreases	Balance 12/31/21	Amounts Due Within One Year
Compensated Absences	\$ 130,105	\$ 21,664	\$ -	\$ 151,769	\$ 151,769

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.

\$ 5,078,000

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.

1,535,000

Capital Debt Obligations

General Obligation Bonds, Series A of 2017, maturing through 2031, bearing interest ranging from 2.00% to 3.10%, principal and interest is payable semi-annually on May 15 and November 15.

7,305,000

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

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. 1,305,000

General Obligation Note of 2014, maturing through 2023, bearing interest of 3.65%, interest and principal payable June 15 and December 15. 133,857

Federally Taxable General Obligation Notes, Series of 2020, maturing through 2040, bearing an interest ranging from 0.552% to 3.291%, interest and principal payable semi-annually May 15 and November 15. 42,930,000

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. 275,000

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. 3,385,000

General Lease Revenue Note, Series of 2021, maturing through December 15, 2036, bearing fixed interest of 2.50% through 2030 and then fixed interest of 2.61% through maturity and principal payable semi-annually June 15 and December 15. 3,950,000

Total \$ 65,896,857

The City has entered into various Lease Agreements as Lessee for financing. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded as the present value of future minimum lease payments as of the inception or placed into service date.

Leased capital assets are being depreciated using the straight-line method of depreciation over varied lives of 5 to 10 years.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2021 were as follows:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

<u>Year Ending December 31,</u>	
2022	\$ 448,896
2023	348,669
2024	109,654
2025	9,731
Total minimum lease payments	916,950
Less: amount representing interest	(40,284)
Present value of minimum lease payments	<u>\$ 876,666</u>

Annual requirements for combined principal and interest costs for Pension Debt Obligations and Capital Debt Obligations are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 2,709,317	\$ 2,036,930	\$ 4,746,247
2023	2,862,540	1,928,795	4,791,335
2024	2,976,000	1,809,038	4,785,038
2025	3,107,000	1,680,432	4,787,432
2026	3,239,000	1,548,756	4,787,756
2027-2031	17,388,000	6,557,789	23,945,789
2032-2036	19,885,000	4,045,201	23,930,201
2037-2040	13,730,000	1,149,050	14,879,050
	<u>\$ 65,896,857</u>	<u>\$ 20,755,991</u>	<u>\$ 86,652,848</u>

Debt service payments of principal and interest are recorded within the Debt Service Fund which is funded by real estate tax allocations and transfers from the General Fund, Recreation Fund, Sewer Treatment Fund, and Sewer Services Fund.

A portion of the original \$43,405,000 Federally Taxable General Obligation Notes, Series of 2020, was for the advanced refunding in full and part of the principal amount of the 2013 Bonds, \$14,960,002; 2015A Bonds, \$6,760,000 and 2017A Bonds, \$2,945,000, including the amount of \$2,623,648 representing accrued payable on principal until retired. The amount of \$27,788,457 in accordance with the escrow agreement was used to purchase securities as listed in the escrow agreement and are held by Fulton Bank; escrow securities mature through 2025. In accordance with GAAP, the remaining debt outstanding and securities in escrow are no longer reported in the City's financial statements.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

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 contributed by the City of Easton was \$707,448; the net assets available for benefits as of December 31, 2021 was \$49,521.

NOTE 9 PENSION PLANS

Aggregate Pension Fund

The Aggregate Pension Fund is comprised of the Non-Uniformed, Police, and Fire Pension 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-uniformed 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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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 Non-Uniformed 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.

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive Members or Beneficiaries Currently Receiving Benefits	49
Inactive Members Entitled to but not yet Receiving Benefits	0
Active Members	<u>1</u>
Total	<u><u>50</u></u>

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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 their normal retirement date, their pension does not start until they actually retire. 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, they are 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 their spouse. The benefit is equal to 50% of the members pension they were 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

NOTE 9 PENSION PLANS (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, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	45.5%
International Equity	9.0%
Fixed Income	40.5%
Real Estate	5.0%
	<u>100.0%</u>

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, 2021, the Officers and Employees Pension Plan does not hold any equities or non-governmental fixed income securities that comprise more than 5% of total investments.

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.18% with Morgan Stanley. 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, 2021, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2021. No significant events or changes in assumptions occurred between the

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

valuation date and the fiscal year end. The components of the net pension liability of the Officers and Employees Pension Plan at December 31, 2021 were as follows:

Total Pension Liability	\$ 7,505,233
Plan Fiduciary Net Position	<u>5,538,373</u>
Net Pension Liability	<u>\$ 1,966,860</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability – 73.79%

Changes in the net pension liability are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2020	<u>\$ 8,070,660</u>	<u>\$ 5,201,956</u>	<u>\$ 2,868,704</u>
Interest Cost	465,818	-	465,818
Changes for Experience	(592,270)	-	(592,270)
Changes of Assumptions	388,372	-	388,372
Contributions – Employer	-	446,960	(446,960)
Net Investment Income	-	730,094	(730,094)
Benefit Payments, Including Refunds of Member Contributions	(827,347)	(827,347)	-
Administration Expense	-	(13,290)	13,290
Net Changes	<u>(565,427)</u>	<u>336,417</u>	<u>(901,844)</u>
Balances at December 31, 2021	<u>\$ 7,505,233</u>	<u>\$ 5,538,373</u>	<u>\$ 1,966,860</u>

Actuarial Assumptions

The total pension liability in the January 1, 2021 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	6.25% (including inflation)
Postretirement Cost of Living Increase	0.00%

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Mortality rates were based on the Pub G-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 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	45.5%	5.5% - 7.5%
International Equity	9.0%	4.5% - 6.5%
Fixed Income	40.5%	1.0% - 3.0%
Real Estate	5.0%	4.5% - 6.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%, 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:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Plan's net pension liability	\$ 2,503,705	\$ 1,966,860	\$ 1,494,608

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

For the year ended December 31, 2021, the City recognized pension credit of \$196,292. At December 31, 2021, 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
Net difference between projected and actual investment earnings	\$ 142,312	\$ 683,022
Total	<u>\$ 142,312</u>	<u>\$ 683,022</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 Ending December 31,

2022	\$ 142,312
2023	(223,338)
2024	(125,865)
2025	<u>(333,819)</u>
	<u>\$ (540,710)</u>

The City of Easton Firemen's 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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Inactive Members or Beneficiaries Currently Receiving Benefits	49
Inactive Members Entitled to but not yet Receiving Benefits	0
Active Members	<u>40</u>
Total	<u>89</u>

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 compensation.

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 their normal retirement date, their pension does not start until they actually retire. The late retirement benefit is the benefit accrued to the late retirement date.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Disability Retirement

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

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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. Their monthly pension shall be calculated as of their date of participation in the program and shall be accumulated with fund earnings and distributed in a lump sum at retirement.

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, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	45.5%
International Equity	9.0%
Fixed Income	40.5%
Real Estate	5.0%
	<u>100.0%</u>

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, 2021, the Firemen's Pension Plan does not hold any equities or nongovernmental fixed income securities that comprise more than 5% of total investments.

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.18% with Morgan Stanley. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)Net Pension Liability

The net pension liability was measured as of December 31, 2021, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2021. 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 Firemen's Pension Plan at December 31, 2021 were as follows:

Total Pension Liability	\$ 42,026,230
Plan Fiduciary Net Position	<u>(35,162,698)</u>
Net Pension Liability	<u>\$ 6,863,532</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability 83.67%

Changes in net pension liability are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2020	\$ 37,773,218	\$ 30,084,640	\$ 7,688,578
Service Cost	781,764	-	781,764
Interest Cost	2,519,215	-	2,519,215
Changes for Experience	(587,460)	-	(587,460)
Changes of Assumptions	3,173,499	-	3,173,499
Contributions – Employer	-	1,943,102	(1,943,102)
Contributions – Member	-	199,658	(199,658)
Net Investment Income	-	4,591,774	(4,591,774)
Benefit Payments, Including Refunds of Member Contributions	(1,634,006)	(1,634,006)	-
Administration Expense	-	(22,470)	22,470
Net Changes	<u>4,253,012</u>	<u>5,078,058</u>	<u>(825,046)</u>
Balances at December 31, 2021	<u>\$ 42,026,230</u>	<u>\$ 35,162,698</u>	<u>\$ 6,863,532</u>

Actuarial Assumptions

Inflation	3.00%
Salary Increases	5.00% (average, including inflation)
Investment Rate of Return	6.25% (including inflation)
Postretirement Cost of Living Increase	0.00%

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Mortality rates were based on the PubS-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 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	45.5%	5.5% - 7.5%
International Equity	9.0%	4.5% - 6.5%
Fixed Income	40.5%	1.0% - 3.0%
Real Estate	5.0%	4.5% - 6.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%, 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:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Plan's net Pension liability	\$ 11,931,133	\$ 6,863,532	\$ 2,644,632

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

For the year ended December 31, 2021, the City recognized pension expense of \$1,235,859. At December 31, 2021, 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	\$ 53,012	\$ 489,550
Changes of assumptions	3,209,465	-
Net difference between projected and actual investment earnings	<u>677,516</u>	<u>4,158,468</u>
Total	<u>\$ 3,939,993</u>	<u>\$ 4,648,018</u>

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

<u>Year Ending December 31,</u>	
2022	\$ 1,295,411
2023	932,144
2024	(778,550)
2025	<u>(2,157,030)</u>
	<u>\$ (708,025)</u>

City of Easton Police Pension Plan

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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.

Inactive Members or Beneficiaries Currently Receiving Benefits	82
Inactive Members Entitled to but not yet Receiving Benefits	1
Active Members	<u>60</u>
Total	<u>143</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 their normal retirement date, their pension does not start until they actually retire. The late retirement benefit is the benefit accrued to the late retirement date.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Disability Retirement

If a participant who has 15 years of service is disabled, they are 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, they are eligible for a disability pension. They shall receive the portion of the full pension as the period of their service up to the date of their 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, they are eligible for a disability pension. They shall receive the portion of the full pension as the period of their service up to the date of termination bears to 20 years of service.

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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (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, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	45.5%
International Equity	9.0%
Fixed Income	40.5%
Real Estate	5.0%
	<u>100.0%</u>

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, 2021, the Police Pension Plan does not hold any equities or non-governmental fixed income securities that comprise more than 5% of total investments.

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.18% with Morgan Stanley. 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, 2021, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2021. 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 Police Pension Plan at December 31, 2021 were as follows:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

Total Pension Liability	\$ 55,998,728
Plan Fiduciary Net Position	<u>38,361,463</u>
Net Pension Liability	<u>\$ 17,637,265</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability 68.50%

Change in the Net Pension Liability is as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2020	\$ 50,527,776	\$ 32,027,817	\$ 18,499,959
Service Cost	1,344,995	-	1,344,995
Interest Cost	3,371,368	-	3,371,368
Changes for Experience	(1,366,044)	-	(1,366,044)
Changes of Assumptions	4,749,673	-	4,749,673
Contributions – Employer	-	3,564,696	(3,564,696)
Contributions – Member	-	360,522	(360,522)
Net Investment Income	-	5,056,984	(5,056,984)
Benefit Payments, Including Refunds of Member Contributions	(2,629,040)	(2,629,040)	-
Administration Expense	-	(19,516)	19,516
Net Changes	<u>5,470,952</u>	<u>6,333,646</u>	<u>(862,694)</u>
Balances at December 31, 2021	<u>\$ 55,998,728</u>	<u>\$ 38,361,463</u>	<u>\$ 17,637,265</u>

Actuarial Assumptions

The total pension liability in the January 1, 2021 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	6.25% (including inflation)
Postretirement Cost of Living Increase	0.00%

Mortality rates were based on the Pub S-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 to reflect mortality improvement.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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	45.5%	5.5% - 7.5%
International Equity	9.0%	4.5% - 6.5%
Fixed Income	40.5%	1.0% - 3.0%
Real Estate	5.0%	4.5% - 6.5%
	<u>100.0%</u>	

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%, 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 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1% Increase 7.25%</u>
Plan's net Pension liability	\$ 25,484,837	\$ 17,637,265	\$ 11,231,779

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2021, the City recognized pension expense of \$2,469,147. At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 82,026	\$ 1,504,578
Changes of assumptions	6,927,797	-
Net difference between projected and actual investment earnings	<u>674,578</u>	<u>4,533,495</u>
Total	<u>\$ 7,684,401</u>	<u>\$ 6,038,073</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 Ending December 31,

2022	\$ 82,026
2023	896,694
2024	674,578
2025	429,227
2026	(843,608)
Thereafter	<u>407,411</u>
	<u>\$ 1,646,328</u>

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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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 Annual Comprehensive Financial Report (ACFR). A copy of the ACFR can be obtained by contacting the PMRS accounting office or on their website www.pmr.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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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.

Plan Membership

Membership of the plan at December 31, 2020 consisted of the following:

Inactive Members or Beneficiaries Currently Receiving Benefits	89
Inactive Members Entitled to but not yet Receiving Benefits	5
Active Members	<u>114</u>
Total	<u>208</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 Annual Comprehensive Financial Report (ACFR). A copy of the ACFR 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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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 quality of investments and consistency in return. The following was the System's adopted asset allocation policy as of January 1, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equities (large cap)	25.0%	5.31%
Equities (small cap)	15.0%	6.06%
Equities (international)	15.0%	5.53%
Equities (emerging markets)	10.0%	5.95%
Fixed Income	15.0%	1.87%
Real Estate	15.0%	5.25%
Timber	5.0%	3.78%
	<u>100.0%</u>	<u>5.55%</u>

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, 2020, PMRS does not hold any equities or non-governmental fixed income securities that comprise more than 5% of total investments.

Net Pension Liability

The net pension liability was measured as of December 31, 2020, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2020. No significant events or changes in assumptions occurred between the valuation date and fiscal year end. The components of the net pension liability at December 31, 2020 were as follows:

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at December 31, 2019	<u>\$ 26,975,333</u>	<u>\$ 28,428,847</u>	<u>\$ (1,453,514)</u>
Service Cost	831,009	-	831,009
Interest Cost	1,425,190	-	1,425,190
Changes for Experience	60,662	-	60,662
Changes of Assumptions	708,775	-	708,775
Contributions – Employer	-	500,137	(500,137)
Contributions – PMRS assessment	-	4,380	(4,380)
Contributions – Member	-	459,049	(459,049)
Net Investment Income	-	1,360,169	(1,360,169)
Market Value Investment Income	-	2,618,983	(2,618,983)
Benefit Payments	(1,114,521)	(1,114,521)	-
Administration Expense	-	(4,380)	4,380
Additional Administrative Expense	-	(59,262)	59,262
Net Changes	<u>1,911,115</u>	<u>4,802,157</u>	<u>-</u>
Balances at December 31, 2020	<u>\$ 28,886,448</u>	<u>\$ 32,193,402</u>	<u>\$ (3,306,954)</u>

Actuarial Assumptions

The total pension liability in the January 1, 2020 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	2.8%
Salary Increases	Age-related scale with merit and inflation component
Investment Rate of Return	5.25%
Postretirement Cost of Living Increase	2.8%

Pre-Retirement Mortality Rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

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 (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Plan, calculated using the discount rate of 5.25%, as well as what the Plan's net pension liability (asset) 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:

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Plan's Net Pension liability (asset)	\$ (783,021)	\$ (3,306,954)	\$ (5,440,683)

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

For the year ended December 31, 2021, the City recognized pension credit of \$599,245. At December 31, 2021, 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	\$ 48,530	\$ 36,791
Changes of assumptions	567,020	-
Net difference between projected and actual investment earnings	-	3,799,902
Contributions subsequent to the date of measurement	545,848	-
Total	<u>\$ 1,161,398</u>	<u>\$ 3,836,693</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLANS (cont'd)

<u>Year Ending December 31,</u>	
2022	\$ (589,291)
2023	(631,400)
2024	(1,084,698)
2025	<u>(369,906)</u>
	<u>\$ (2,675,295)</u>

NOTE 10 POSTRETIREMENT BENEFITS PLAN

City of Easton Postretirement Benefit Plan

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.

Funding Policy

The contribution requirements of plan members and the City are established and may be awarded by the City. The required contribution is based upon a projected "pay as you go" financing requirement.

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 coverage.

For Officers who retired between January 1, 2021 and December 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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

For Officers who retired between January 1, 2014 and December 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 January 1, 2014 and December 31, 2014 and were 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.

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.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

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, they must pay 40% of the premium. If the retiree has between 25 and 30 years of service at retirement, they must pay 50% of the premium. If the retiree has between 20 and 25 years of service at retirement, they 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, they 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.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

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.

Participant Data

Participant data is based on census information as of January 1, 2021.

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.

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, 2021:

	Fire	Police	Non-Uniformed	Total
Active Participants	44	60	-	104
Vested Former Members	2	7	-	9
Retired Participants	15	15	9	39
	<u>61</u>	<u>85</u>	<u>9</u>	<u>152</u>

Total OPEB Liability

The City's total OPEB liability under this single employer plan of \$11,748,090 was measured as of January 1, 2021, and was determined by an actuarial valuation as of January 1, 2021.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

Actuarial Assumptions and Other Inputs

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision, actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan Net Position is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Single Employer OPEB Healthcare Benefit

Actuarial Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal
Interest Rate	3.26%, based on S&P Municipal Bond 20-year high grade rate index at December 31, 2021.
Projected Salary Increases	5.0%
Health Care Cost Trend Rate	5.5% in 2020 through 2023. Rate gradually decreases from 5.4% in 2024 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Asset Valuation Method	Equal to Market Value of Assets

Mortality rates are assumed pre-retirement and post-retirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into our retirement table are rates projected generationally by the PubS-2010 projection scale to reflect mortality improvement.

The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an actuarial experience study on January 1, 2020.

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

Changes in the Net OPEB liability are as follows:

Total OPEB Liability	Fire	Police	Non-Uniformed	Total
Balances at January 1, 2020	\$4,878,955	\$6,632,974	\$ 216,786	\$11,728,715
Service Cost	160,973	358,607	-	519,580
Interest	161,146	225,160	6,866	393,172
Differences between Expected and Actual Experience	(655,789)	(1,274,158)	(29,347)	(1,959,294)
Changes of Assumptions	513,765	865,337	33,522	1,412,624
Benefit Payments	(178,691)	(156,629)	(11,387)	(346,707)
Net Changes	<u>1,404</u>	<u>18,317</u>	<u>(346)</u>	<u>19,375</u>
Balances at January 1, 2021	<u>\$4,880,359</u>	<u>\$6,651,291</u>	<u>\$ 216,440</u>	<u>\$11,748,090</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

	1% Decrease 0.93%	Current Rate 1.93%	1% Increase 2.93%
Fire	\$ 5,378,575	\$ 4,880,359	\$ 4,452,654
Police	7,463,008	6,651,291	5,950,050
Non-Uniformed	<u>253,000</u>	<u>216,440</u>	<u>187,489</u>
Total	<u>\$ 13,094,583</u>	<u>\$ 11,748,090</u>	<u>\$ 10,590,193</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Rate	1% Increase
Fire	\$ 4,458,683	\$ 4,880,359	\$ 5,371,441
Police	5,790,168	6,651,291	7,685,186
Non-Uniformed	<u>188,072</u>	<u>216,440</u>	<u>251,328</u>
Total	<u>\$ 10,436,923</u>	<u>\$ 11,748,090</u>	<u>\$ 13,307,955</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POSTRETIREMENT BENEFITS PLAN (cont'd)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2021, the City recognized OPEB expense of \$670,274. At December 31, 2021, the City reported deferred outflows of resource and deferred inflows of resources related to this single employer OPEB plan from the following sources:

<u>Deferred Outflows of Resources</u>	<u>Fire</u>	<u>Police</u>	<u>Non-Uniformed</u>	<u>Total</u>
Changes of Assumptions	\$ 698,209	\$ 1,146,658	\$ 45,192	\$ 1,890,059
Benefit Payments subsequent to the Measurement Date (1/1/21)	<u>185,250</u>	<u>123,014</u>	<u>10,656</u>	<u>318,920</u>
Total Deferred Outflows	<u>\$ 883,459</u>	<u>\$ 1,269,672</u>	<u>\$ 55,848</u>	<u>\$ 2,208,979</u>

<u>Deferred Inflows of Resources</u>	<u>Fire</u>	<u>Police</u>	<u>Non-Uniformed</u>	<u>Total</u>
Differences between Expected and Actual Experience	\$ 1,006,181	\$ 1,870,272	\$ 42,609	\$ 2,919,062
Changes of Assumptions	<u>111,661</u>	<u>215,613</u>	<u>(3,141)</u>	<u>324,133</u>
Total Deferred Outflows	<u>\$ 1,117,842</u>	<u>\$ 2,085,885</u>	<u>\$ 39,468</u>	<u>\$ 3,243,195</u>

Deferred outflows of resources of \$318,920 related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability and other deferred outflows and inflows of resources related to this single employer OPEB plan will be recognized in OPEB expense as follows:

Future deferred outflows and inflows to be recognized as OPEB expense are as follows:

<u>Year Ending December 31,</u>	<u>Fire</u>	<u>Police</u>	<u>Non-Uniformed</u>	<u>Total</u>
2022	\$ (76,265)	\$ (167,158)	\$ 945	\$ (242,478)
2023	(76,265)	(167,158)	945	(242,478)
2024	(76,265)	(167,158)	945	(242,478)
2025	(76,266)	(167,159)	943	(242,482)
2026	(102,813)	(206,846)	(667)	(310,326)
Thereafter	<u>(11,759)</u>	<u>(63,748)</u>	<u>2,613</u>	<u>(72,894)</u>
				<u>\$ (1,353,136)</u>

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 11 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:

- **Lump Sum Payment** – One Million Dollars (\$1,000,000) on the effective date of this Agreement;
- **Debt Forgiveness** – All sums due to the Authority from the City (approximately Eight Hundred Thousand Dollars (\$800,000) 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

NOTE 11 LEASE AND OPERATING AGREEMENT (cont'd)

- **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;
- **Annual Payment** – One million three hundred thousand dollars (\$1,300,000), 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 proceeding annual payment by 1.02%;
- **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 12 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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 MASTER LEASE AGREEMENT

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 13 DESIGNATION OF CITY FUND BALANCES/NET POSITION

Restricted – The Debt Service, Liquid Fuels, Capital Project Funds and Major Grant Funds are restricted in accordance with state and federal regulations and debt covenant provisions in the total amount of \$6,821,244. Internal Service Funds established for health, liability and unemployment resources are restricted in accordance with their original insurable purposes in the total amount of \$3,491,708.

Assigned – In 2020, the City of Easton's administration assigned \$533,000 of fund balance for unanticipated expenses in 2021. An additional \$2,153,000 was to be used in 2022 for capital projects and contributions to the City Healthcare Fund. The \$533,000 remained unspent in 2021 and was added to the \$176,100 year-end surplus. For 2021, the administration assigned \$2,862,100 to be used in 2022 for unanticipated employee expenses, capital projects, and continued contributions to the City Healthcare and Liability Insurance Funds.

NOTE 14 CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

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

NOTE 14 CONTINGENCIES (cont'd)

Capital Improvement Commitments

As of December 31, 2021, the City was in the process of capital construction. Construction commitments completed to date are as follows:

Project	Contract Amount	Completed 12/31/2021	Commitment
Classroom renovations	\$ 13,527,000	\$ 8,135,682	\$ 5,391,318

Additionally, at December 31, 2021, the City had \$813,569 in construction-in-progress not subject to construction commitments.

NOTE 15 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 who reside in the zones. The KOZ status for all 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 residence 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

CITY OF EASTON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 ECONOMIC OPPORTUNITY ZONES (cont'd)

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 owner 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 the Stewart Silk Mill located on Easton's South Side. For more information about the program, e-mail John Kingsley at jkingsley@easton-pa.gov.

Local Economic Revitalization Tax Assistance (LERTA) Program

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

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

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

Easton's LERTA District was established by City Council Resolution #66-2012, Information on LERTA District eligible properties is available at the Department of Planning and 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 John Kingsley at jkingsley@easton-pa.gov.

CITY OF EASTON
NOTES TO FINANCIAL STATEMENTS

NOTE 16 DEFICIT NET POSITION

As of December 31, 2021 the Major Grants Funds reported unrestricted net deficit amount of \$64,662; the City intends to fund the deficit with future revenues.

NOTE 17 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through May 30, 2023, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY, INVESTMENT
RETURNS, AND RELATED RATIOS - NON-UNIFORMED PENSION PLAN

	MEASUREMENT DATE							
	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
<u>TOTAL PENSION LIABILITY</u>								
Service cost	\$ -	\$ 7,673	\$ 7,308	\$ 6,806	\$ 6,482	\$ 14,396	\$ 13,710	\$ 17,966
Interest cost	465,818	555,326	575,521	588,652	612,746	656,144	685,520	713,728
Change for experience	(592,270)	-	(227,607)	-	(382,462)	-	(10,039)	-
Change for assumption	388,372	-	509,807	-	603,328	-	-	-
Benefit payments	(827,347)	(835,799)	(907,571)	(928,861)	(986,572)	(1,077,707)	(1,105,482)	(1,081,524)
NET CHANGE IN TOTAL PENSION LIABILITY	(565,427)	(272,800)	(42,542)	(333,403)	(146,478)	(407,167)	(416,291)	(349,830)
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	8,070,660	8,343,460	8,386,002	8,719,405	8,865,883	9,273,050	9,689,341	10,039,171
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 7,505,233</u>	<u>\$ 8,070,660</u>	<u>\$ 8,343,460</u>	<u>\$ 8,386,002</u>	<u>\$ 8,719,405</u>	<u>\$ 8,865,883</u>	<u>\$ 9,273,050</u>	<u>\$ 9,689,341</u>
<u>PLAN FIDUCIARY NET POSITION</u>								
Contributions:								
Employer	\$ 446,960	\$ 437,370	\$ 436,867	\$ 828,255	\$ 827,782	\$ 782,506	\$ 804,861	\$ 524,433
Employee	-	5,167	5,017	7,950	7,007	7,288	12,996	20,384
Net investment income (loss)	730,094	549,958	868,839	(349,737)	645,050	396,395	(123,831)	411,644
Benefit payments	(827,347)	(835,799)	(907,571)	(928,861)	(986,572)	(1,077,707)	(1,105,482)	(1,081,524)
Administrative expenses	(13,290)	(22,269)	(8,287)	(18,866)	(6,503)	(13,676)	(11,783)	(10,590)
Other changes	-	-	-	-	-	-	6,704	920
NET CHANGE IN PLAN FIDUCIARY NET POSITION	336,417	134,427	394,865	(461,259)	486,764	94,806	(416,535)	(134,733)
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	5,201,956	5,067,529	4,672,664	5,133,923	4,647,159	4,552,353	4,968,888	5,103,621
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ 5,538,373</u>	<u>\$ 5,201,956</u>	<u>\$ 5,067,529</u>	<u>\$ 4,672,664</u>	<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	<u>\$ 1,966,860</u>	<u>\$ 2,868,704</u>	<u>\$ 3,275,931</u>	<u>\$ 3,713,338</u>	<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 total pension liability	73.79%	64.46%	60.74%	55.72%	58.88%	52.42%	49.09%	51.28%
Covered employee payroll	\$ 85,574	\$ 79,500	\$ 75,184	\$ 75,486	\$ 117,832	\$ 143,982	\$ 180,815	\$ 242,604
City's net pension liability as a percentage of covered payroll	2298.43%	3608.43%	4357.22%	4919.24%	3042.88%	2930.04%	2610.79%	1945.74%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY, INVESTMENT
RETURNS, AND RELATED RATIOS - FIRE PENSION PLAN

	MEASUREMENT DATE							
	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
TOTAL PENSION LIABILITY								
Service cost	\$ 781,764	\$ 660,018	\$ 628,589	\$ 648,120	\$ 617,257	\$ 585,056	\$ 557,196	\$ 571,789
Interest cost	2,519,215	2,533,612	2,455,853	2,213,895	2,165,996	2,046,325	1,943,501	1,900,331
Change for experience	(587,460)	-	132,527	-	(324,978)	-	(696,365)	-
Change for assumption	3,173,499	-	1,412,209	-	1,824,790	-	-	-
Benefit payments	(1,634,006)	(1,758,275)	(1,864,869)	(1,218,171)	(1,127,855)	(1,439,980)	(1,041,050)	(1,120,697)
NET CHANGE IN TOTAL PENSION LIABILITY	4,253,012	1,435,355	2,764,309	1,643,844	3,155,210	1,191,401	763,282	1,351,423
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	37,773,218	36,337,863	33,573,554	31,929,710	28,774,500	27,583,099	26,819,817	25,468,394
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 42,026,230</u>	<u>\$ 37,773,218</u>	<u>\$ 36,337,863</u>	<u>\$ 33,573,554</u>	<u>\$ 31,929,710</u>	<u>\$ 28,774,500</u>	<u>\$ 27,583,099</u>	<u>\$ 26,819,817</u>
PLAN FIDUCIARY NET POSITION								
Contributions:								
Employer	\$ 1,943,102	\$ 1,525,438	\$ 1,463,642	\$ 1,522,361	\$ 1,508,983	\$ 1,418,639	\$ 1,415,944	\$ 1,061,666
Employee	199,658	226,761	242,652	203,408	221,637	206,592	215,973	201,891
Net investment income (loss)	4,591,774	3,182,278	4,625,507	(1,682,480)	2,954,972	1,849,123	(493,043)	1,483,012
Benefit payments	(1,634,006)	(1,758,275)	(1,864,869)	(1,218,171)	(1,127,855)	(1,439,980)	(1,041,050)	(1,120,697)
Administrative expenses	(22,470)	(37,652)	(8,537)	(29,935)	(16,034)	(17,462)	(12,604)	(14,084)
Other changes	-	-	-	-	-	-	2,758	920
NET CHANGE IN PLAN FIDUCIARY NET POSITION	5,078,058	3,138,550	4,458,395	(1,204,817)	3,541,703	2,016,912	87,978	1,612,708
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	30,084,640	26,946,090	22,487,695	23,692,512	20,150,809	18,133,897	18,045,919	16,433,211
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ 35,162,698</u>	<u>\$ 30,084,640</u>	<u>\$ 26,946,090</u>	<u>\$ 22,487,695</u>	<u>\$ 23,692,512</u>	<u>\$ 20,150,809</u>	<u>\$ 18,133,897</u>	<u>\$ 18,045,919</u>
CITY'S NET PENSION LIABILITY	<u>\$ 6,863,532</u>	<u>\$ 7,688,578</u>	<u>\$ 9,391,773</u>	<u>\$ 11,085,859</u>	<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 total pension liability	83.67%	79.65%	74.15%	66.98%	74.20%	70.03%	65.74%	67.29%
Covered employee payroll	\$ 3,283,772	\$ 3,665,119	\$ 3,594,188	\$ 2,841,066	\$ 2,918,361	\$ 3,782,072	\$ 3,624,573	\$ 3,081,522
City's net pension liability as a percentage of covered payroll	209.01%	209.78%	261.30%	390.20%	282.25%	228.01%	260.70%	284.73%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY, INVESTMENT
RETURNS, AND RELATED RATIOS - POLICE PENSION PLAN

	MEASUREMENT DATE							
	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
TOTAL PENSION LIABILITY								
Service cost	\$ 1,344,995	\$ 1,251,216	\$ 1,191,634	\$ 1,005,773	\$ 957,879	\$ 848,805	\$ 808,386	\$ 753,083
Interest cost	3,371,368	3,387,951	3,246,936	2,984,555	2,876,380	2,743,288	2,645,645	2,506,321
Change for experience	(1,366,044)	-	(459,547)	-	(210,640)	-	656,187	-
Change for assumption	4,749,673	-	3,190,482	-	2,601,819	-	-	-
Benefit payments	(2,629,040)	(2,518,958)	(2,448,329)	(2,373,312)	(2,354,497)	(2,244,052)	(2,141,028)	(2,085,465)
NET CHANGE IN TOTAL PENSION LIABILITY	5,470,952	2,120,209	4,721,176	1,617,016	3,870,941	1,348,041	1,969,190	1,173,939
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	50,527,776	48,407,567	43,686,391	42,069,375	38,198,434	36,850,393	34,881,203	33,707,264
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 55,998,728</u>	<u>\$ 50,527,776</u>	<u>\$ 48,407,567</u>	<u>\$ 43,686,391</u>	<u>\$ 42,069,375</u>	<u>\$ 38,198,434</u>	<u>\$ 36,850,393</u>	<u>\$ 34,881,203</u>
PLAN FIDUCIARY NET POSITION								
Contributions:								
Employer	\$ 3,564,696	\$ 2,884,612	\$ 2,887,077	\$ 2,501,073	\$ 2,510,888	\$ 2,246,363	\$ 2,304,171	\$ 1,703,854
Employee	360,522	384,316	338,453	313,440	314,754	292,681	280,296	258,853
Net investment income (loss)	5,056,984	3,385,846	4,786,846	(1,674,439)	2,967,235	1,722,920	(495,045)	1,512,997
Benefit payments	(2,629,040)	(2,518,958)	(2,448,329)	(2,373,312)	(2,354,497)	(2,244,052)	(2,141,028)	(2,085,465)
Administrative expenses	(19,516)	(32,702)	(10,837)	(25,116)	(8,818)	(17,066)	(13,889)	(14,805)
Other changes	-	-	-	100	100	100	(1,088)	1,020
NET CHANGE IN PLAN FIDUCIARY NET POSITION	6,333,646	4,103,114	5,553,210	(1,258,254)	3,429,662	2,000,946	(66,583)	1,376,454
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	32,027,817	27,924,703	22,371,493	23,629,747	20,200,085	18,199,139	18,265,722	16,889,268
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ 38,361,463</u>	<u>\$ 32,027,817</u>	<u>\$ 27,924,703</u>	<u>\$ 22,371,493</u>	<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	<u>\$ 17,637,265</u>	<u>\$ 18,499,959</u>	<u>\$ 20,482,864</u>	<u>\$ 21,314,898</u>	<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 total pension liability	68.50%	63.39%	57.69%	51.21%	56.17%	52.88%	49.39%	52.37%
Covered employee payroll	\$ 5,261,502	\$ 4,850,072	\$ 4,617,458	\$ 4,837,962	\$ 4,561,549	\$ 4,758,818	\$ 4,755,170	\$ 4,648,695
City's net pension liability as a percentage of covered payroll	335.21%	381.44%	443.60%	440.58%	404.24%	378.21%	392.23%	357.42%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY, INVESTMENT
RETURNS, AND RELATED RATIOS - PMRS PLAN

	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
<u>TOTAL PENSION LIABILITY</u>							
Service cost	\$ 831,009	\$ 978,933	\$ 988,444	\$ 945,924	\$ 848,268	\$ 816,351	\$ 824,389
Interest cost	1,425,190	1,366,328	1,292,954	1,220,496	1,178,884	1,132,977	1,110,052
Change in benefit terms	-	-	126,611	-	-	-	-
Change for experience	60,662	-	(91,976)	-	190,772	-	(445,874)
Change for assumption	708,775	-	-	-	446,833	145,747	-
Transfers	-	(141,708)	-	-	-	-	-
Benefit payments	(1,114,521)	(930,073)	(771,355)	(858,238)	(1,013,067)	(1,522,955)	(612,033)
NET CHANGE IN TOTAL PENSION LIABILITY	1,911,115	1,273,480	1,544,678	1,308,182	1,651,690	572,120	876,534
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	26,975,333	25,701,853	24,157,175	22,848,993	21,197,303	20,625,183	19,748,649
TOTAL PENSION LIABILITY, END OF YEAR	\$ 28,886,448	\$ 26,975,333	\$ 25,701,853	\$ 24,157,175	\$ 22,848,993	\$ 21,197,303	\$ 20,625,183
<u>PLAN FIDUCIARY NET POSITION</u>							
Contributions:							
Employer	\$ 500,137	\$ 495,569	\$ 460,434	\$ 464,391	\$ 389,598	\$ 401,999	\$ 314,675
PMRS - Assessment	4,380	4,320	4,340	4,240	4,080	4,000	-
Employee	459,049	540,966	555,028	524,538	483,853	427,351	422,268
Net investment income (loss)	3,979,152	4,882,639	(1,146,549)	3,654,280	1,703,742	133,787	505,847
Transfers	-	(141,708)	-	-	-	-	-
Benefit payments	(1,114,521)	(930,073)	(771,355)	(858,238)	(1,013,067)	(1,522,955)	(612,033)
Administrative expenses	(63,642)	(49,556)	(58,243)	(56,224)	(58,761)	(43,476)	(44,805)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	3,764,555	4,802,157	(956,345)	3,732,987	1,509,445	(599,294)	585,952
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	28,428,847	23,626,690	24,583,035	20,850,048	19,340,603	19,939,897	19,353,945
PLAN FIDUCIARY NET POSITION, END OF YEAR	\$ 32,193,402	\$ 28,428,847	\$ 23,626,690	\$ 24,583,035	\$ 20,850,048	\$ 19,340,603	\$ 19,939,897
City's NET PENSION LIABILITY	\$ (3,306,954)	\$ (1,453,514)	\$ 2,075,163	\$ (425,860)	\$ 1,998,945	\$ 1,856,700	\$ 685,286
Plan fiduciary net position as a percentage of total pension liability	111.45%	105.39%	91.93%	101.76%	91.25%	91.24%	96.68%
Covered employee payroll	\$ 6,107,937	\$ 7,250,159	\$ 7,141,603	\$ 6,982,208	\$ 6,565,031	\$ 6,194,675	\$ 6,261,571
City's net pension liability as a percentage of covered payroll	-54.14%	-20.05%	29.06%	-6.10%	30.45%	29.97%	10.94%

Notes to Schedule:

Assumption Changes - In 2015, the mortality assumption was changed from Blue Collar RP-2000 Table to the Blue Collar RP-2000 Table projected to 2015 using Scale AA. In 2017, the mortality assumption was changed from the Blue Collar RP-2000 Table projected to 2015 to the Blue Collar RP-2000 Table projected to 2017 using Scale AA, and the interest rate assumption was decreased from 7.50% to 7.25%.

Benefit Changes - None.

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

Year	Plan	Actuarial Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Payroll
2014	Non-Uniformed	\$ 524,433	\$ 524,433	\$ -	\$ 242,604	216.17%
	Fire	1,061,666	1,061,666	-	3,081,522	34.45%
	Police	1,703,854	1,703,854	-	4,648,695	36.65%
	PMRS	302,232	314,675	(12,443)	6,261,571	5.03%
2015	Non-Uniformed	804,861	804,861	-	180,815	445.13%
	Fire	1,415,945	1,415,945	-	3,624,573	39.07%
	Police	2,304,171	2,304,171	-	4,755,170	48.46%
	PMRS	405,659	405,999	(340)	6,194,675	6.55%
2016	Non-Uniformed	782,506	782,506	-	143,982	543.47%
	Fire	1,418,639	1,418,639	-	3,782,072	37.51%
	Police	2,246,363	2,246,363	-	4,758,818	47.20%
	PMRS	391,711	393,678	(1,967)	6,565,031	6.00%
2017	Non-Uniformed	827,782	827,782	-	117,832	702.51%
	Fire	1,508,983	1,508,983	-	2,918,361	51.71%
	Police	2,510,888	2,510,888	-	4,561,549	55.04%
	PMRS	446,855	468,631	(21,776)	6,982,208	6.71%
2018	Non-Uniformed	828,255	828,255	-	75,486	1097.23%
	Fire	1,522,361	1,522,361	-	2,841,066	53.58%
	Police	2,501,073	2,501,073	-	4,837,962	51.70%
	PMRS	464,594	464,774	(180)	7,141,603	6.51%
2019	Non-Uniformed	436,867	436,867	-	77,184	566.01%
	Fire	1,463,642	1,463,642	-	3,594,188	40.72%
	Police	2,887,077	2,887,077	-	4,617,458	62.53%
	PMRS	499,689	499,889	(200)	7,250,159	6.89%
2020	Non-Uniformed	437,370	437,370	-	79,500	550.15%
	Fire	1,525,438	1,525,438	-	3,665,119	41.62%
	Police	2,884,612	2,884,612	-	4,850,072	59.48%
	PMRS	504,317	604,517	(100,200)	6,107,937	9.90%
2021	Non-Uniformed	446,960	446,960	-	85,574	522.31%
	Fire	1,943,102	1,943,102	-	3,283,772	59.17%
	Police	3,564,696	3,564,696	-	5,261,502	67.75%
	PMRS	*	*	*	*	*

* Not available due to measurement date of the PMRS Plan, which is December 31, 2020.

Notes to Schedule:

Methods and Assumptions Used to Determine Contribution Rates:

	Non-Uniformed	Fire
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar	Level dollar
Remaining amortization period	13 Years	10 years
Asset valuation method	Smoothed value with a corridor of 90% to 110% of market value	Smoothed value with a corridor of 90% to 110% of market value
Inflation	3.00%	3.00%
Salary increases	5.00%	5.00%
Investment rate of return	7.00%	7.00%
Retirement age	Age 65	Normal retirement age
Mortality	PubS-2010 mortality table, including rates for disables retirees and contingent survivors	PubS-2010 mortality table, including rates for disables retirees and contingent survivors

**CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

	<u>Police</u>	<u>PMRS</u>
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar	Level dollar
Remaining amortization period	12 Years	11 years
Asset valuation method	Smoothed value with a corridor of 90% to 110% of market value	Based upon the municipal reserves
Inflation	3.00%	2.80%
Salary increases	5.00%	Age related scale with merit and inflation component
Investment rate of return	7.00%	5.25%
Retirement age	Age 52 and completion of 23 years of service	Normal retirement age
Mortality	PubS-2010 mortality table, including rates for disables retirees and contingent survivors	Pre-retirement mortality: Males - RP 2000 projected 15 years with scale AA Females - RP 2000 projected 15 years with scale AA, setback five years

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 2021 is based upon the January 1, 2019 actuarial valuation.

Other Information:

Police Pension

Assumption changes - In 2015, the mortality assumption was changed from Blue Collar RP-2000 Table to the Blue Collar RP-2000 Table projected to 2015 using Scale AA.

General

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CITY OF EASTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY, INVESTMENT
RETURNS, AND RELATED RATIOS

	MEASUREMENT DATE			
	01/01/21	01/01/20	01/01/19	01/01/18
TOTAL OPEB LIABILITY				
Service cost	\$ 519,580	\$ 455,150	\$ 637,929	\$ 557,833
Interest cost	393,172	398,844	406,377	428,631
Change for experience	(1,959,294)	-	(1,927,488)	-
Change for assumption	1,412,624	510,155	(518,614)	542,796
Benefit payments	<u>(346,707)</u>	<u>(300,062)</u>	<u>(339,679)</u>	<u>(259,030)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	19,375	1,064,087	(1,741,475)	1,270,230
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	<u>11,728,715</u>	<u>10,664,628</u>	<u>12,406,103</u>	<u>11,135,873</u>
TOTAL OPEB LIABILITY, END OF YEAR	<u><u>\$ 11,748,090</u></u>	<u><u>\$ 11,728,715</u></u>	<u><u>\$ 10,664,628</u></u>	<u><u>\$ 12,406,103</u></u>
Covered employee payroll	\$ 8,881,727	\$ 10,392,351	\$ 10,392,351	\$ 7,174,245
City's net OPEB liability as a percentage of covered payroll	132.27%	112.86%	102.62%	172.93%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**OTHER SUPPLEMENTARY INFORMATION -
COMBINING SCHEDULES**

**CITY OF EASTON
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	Restlawn Fund	Stormwater Fund	Recreation Fund	Open Space Fund	Donations Fund	City Hall Fund	Totals
ASSETS							
Cash and cash equivalents	\$ 189,032	\$ 1,260,863	\$ 610,188	\$ 435,378	\$ 15,949	\$ 206,090	\$ 2,717,500
Accounts receivable	-	1,002,821	-	-	-	13,075	1,015,896
Other assets	210,000	-	-	-	-	-	210,000
Due from other funds	-	1,044,651	54,148	9,533	-	-	1,108,332
TOTAL ASSETS	<u>399,032</u>	<u>3,308,335</u>	<u>664,336</u>	<u>444,911</u>	<u>15,949</u>	<u>219,165</u>	<u>5,051,728</u>
LIABILITIES							
Accounts payable	-	-	4,136	-	-	168	4,304
Accrued salaries and benefits	-	-	11,999	-	-	-	11,999
Other current liabilities	-	105,106	9,246	-	-	9,388	123,740
Due to other funds	-	437,288	493,715	22,072	-	182,018	1,135,093
TOTAL LIABILITIES	<u>-</u>	<u>542,394</u>	<u>519,096</u>	<u>22,072</u>	<u>-</u>	<u>191,574</u>	<u>1,275,136</u>
FUND BALANCES							
Assigned	<u>399,032</u>	<u>2,765,941</u>	<u>145,240</u>	<u>422,839</u>	<u>15,949</u>	<u>27,591</u>	<u>3,776,592</u>
TOTAL FUND BALANCES	<u>\$ 399,032</u>	<u>\$ 2,765,941</u>	<u>\$ 145,240</u>	<u>\$ 422,839</u>	<u>\$ 15,949</u>	<u>\$ 27,591</u>	<u>\$ 3,776,592</u>

CITY OF EASTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Restlawn Fund	Stormwater Fund	Recreation Fund	Open Space Fund	Donations Fund	City Hall Fund	Totals
REVENUES							
Taxes	\$ -	\$ -	\$ 1,258,264	\$ -	\$ -	\$ -	\$ 1,258,264
Intergovernmental revenues	-	-	40,000	-	-	-	40,000
Charges for services/fees	-	-	131,057	9,533	-	156,756	297,346
Stormwater runoff charges	-	1,602,955	-	-	-	-	1,602,955
Miscellaneous revenue/other	-	-	57	-	612	-	669
TOTAL REVENUES	-	1,602,955	1,429,378	9,533	612	156,756	3,199,234
EXPENDITURES							
General government	-	-	-	-	-	159,776	159,776
Public works - stormwater	-	388,369	-	-	-	-	388,369
Culture and recreation	-	-	1,442,851	22,072	-	-	1,464,923
TOTAL EXPENDITURES	-	388,369	1,442,851	22,072	-	159,776	2,013,068
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	1,214,586	(13,473)	(12,539)	612	(3,020)	1,186,166
OTHER FINANCING SOURCES (USES)							
Sale of assets	89,811	-	-	-	-	-	89,811
Transfers out	-	-	(69,279)	-	-	-	(69,279)
TOTAL OTHER FINANCING SOURCES (USES)	89,811	-	(18,260)	-	-	-	71,551
NET CHANGES IN FUND BALANCES	89,811	1,214,586	(31,733)	(12,539)	612	(3,020)	1,257,717
FUND BALANCES, BEGINNING OF YEAR	309,221	1,551,355	176,973	435,378	15,337	30,611	2,518,875
FUND BALANCES, END OF YEAR	\$ 399,032	\$ 2,765,941	\$ 145,240	\$ 422,839	\$ 15,949	\$ 27,591	\$ 3,776,592

SINGLE AUDIT



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

May 30, 2023

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the City of Easton, Easton, Pennsylvania, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 30, 2023. Our report includes a reference to other auditors who audited the financial statements of Easton Suburban Water Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' 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's internal control over financial reporting ("internal control") as a basis for designing audit 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Honorable Mayor and Member of Council
City of Easton

significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses or schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 City'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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item #2021-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses or schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP



INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

May 30, 2023

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

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited the City of Easton's ("the City") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended December 31, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance finding identified in the accompany schedule of findings and questioned cost. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Honorable Mayor and Member of Council
City of Easton

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Easton and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for its major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

Honorable Mayor and Member of Council
City of Easton

- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP

**CITY OF EASTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROJECT TITLE</u>	<u>SOURCE CODES</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>	<u>AMOUNT PASSED THROUGH TO SUBRECIPIENTS</u>
<u>U.S. DEPARTMENT OF TREASURY</u>				
Passed through Pennsylvania Department of Community and Economic Development				
Coronavirus State and Local Fiscal Recovery Funds	I	21.027	\$ 3,890,075	\$ -
TOTAL U.S. DEPARTMENT OF TREASURY			3,890,075	-
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Technical Assistance Grant	D	20.710	22,625	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			22,625	-
TOTAL FEDERAL EXPENDITURES			\$ 3,912,700	\$ -

Source Codes:

D = Direct Funding

I = Indirect Funding

CITY OF EASTON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes all the federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

NOTE B INDIRECT COST RATE

The City has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended December 31, 2021, there were no indirect costs included in the schedule of expenditures of federal awards.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF EASTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> X </u> Yes | <u> </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |
| • Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No |

Federal Awards

Internal control over major programs:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |

Type of auditor's report issued on compliance for major program [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance under the Uniform Guidance?

 X Yes No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

21.027

Coronavirus State and Local Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

CITY OF EASTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding #2021-001

YEAR-END ADJUSTMENTS NOT POSTED RESULTING IN MATERIAL AUDIT ADJUSTMENTS

Condition: During the audit of the City's financial statements, we identified material misstatements in the City's general ledger account balances which necessitated the proposal of material audit adjustments.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP.")

Cause: The City's business office did not perform an adequate year-end closing process.

Effect: Several material audit adjustments were necessary to properly reflect balances as of year-end.

Recommendation: We recommended that the City take steps to implement procedures to ensure that year end reconciliations and adjustments are posted in a timely manner.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CITY OF EASTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2021-002 – SUBMISSION TO THE FEDERAL AUDIT CLEARINGHOUSE

Condition

The City's single audit and reporting package to the Federal Audit Clearinghouse was delayed for the year ended December 31, 2021 beyond the due date.

Criteria

The submission to the Federal Audit Clearinghouse is typically due within nine months of its fiscal year-end.

Cause

The City did not have an audit completed within the due date of September 30, 2022.

Effect

The Federal Audit Clearinghouse filing deadline for the December 31, 2021 single audit was not met.

Recommendation

The City should develop procedures to ensure timely completion of the audit and submission to the Federal Audit Clearinghouse.



CITY OF EASTON

PENNSYLVANIA

Finance Department

2021 Audit Management Response to Current Year Findings and Recommendations

Finding #2021-001 and #2021-002

Overview:

- While the City of Easton agrees with the findings, it is important to note that the impacts of the pandemic were still evident across the City in 2021, including within the Finance Department, where staffing levels were down. In addition, the City's Deputy Finance Director – a key contributor in preparing for the annual audit - moved on to a Director role at another municipality midway through the year. Although this position was quickly filled, a portion of the institutional knowledge needed to be rebuilt.

Corrective Action Plan

- The Finance Department created a book-close process in 2020 and has worked to execute it on a monthly and annual basis
- With the addition of the new Deputy Finance Director in mid 2021, the Finance Department has implemented additional procedures and internal controls to ensure that entries, including year-end adjustments, are posted accurately and quickly. As a result, the Finance Department did initiate a majority of the proposed audit adjustments in 2021
- Going forward, the Finance Department will continue to evaluate its processes and procedures while posting adjusting entries in a timely basis
 - Individuals responsible include Mark Lysynecky, Finance Director and Peter Koorie, Deputy Finance Director
 - Anticipated completion date is prior to issuance of the Fiscal 2022 Financial Statements