

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

4) Each month the administration prepares a detailed budget report. The report cites the past month and year-to-date activity, as well as encumbrances and unencumbered balances by account.

5) All modifications, transfers and amendments must be approved by Borough Council.

6) Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, Fire Fund, Liquid Fuels Fund and the Capital Projects Fund.

7) The legally required and adopted budgets of the Borough are for the General Fund, Debt Service Fund, Fire Fund, Liquid Fuels Fund and the Capital Projects Fund.

8) Budgets for the General Fund, Debt Service Fund, Fire Fund, Liquid Fuels Fund and the Capital Projects Fund are adopted on a cash basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes)

9) Borough Council may authorize supplemental appropriations during the year. No supplemental appropriations were made during fiscal 2017. Borough Council must approve all over expenditures of appropriations or transfers of appropriated amounts.

Cash and Investments

Statutes allow the Borough to invest in obligations of the U.S. Treasury, U.S. Agencies, obligations of the Commonwealth of Pennsylvania, savings accounts or time deposits of institutions insured by the Federal Deposit Insurance Corporation (FDIC) and deposits in excess of FDIC amounts if collateralized by the depository.

Investments are stated at market. See Note 2 for additional disclosures about investments.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 1 Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable

As a result of using the cash basis method of accounting, \$214,870 of property taxes receivable as of December 31, 2017, have not been included as revenues.

The property tax calendar for the fiscal year is as follows:

January 1	-	Levy Date
April 1	-	Billing Date
April 1 - May 31	-	2% Discount Period
June 1 - July 31	-	Face Payment Period
August 1 - December 31	-	10% Penalty Period
January 1	-	Lien Date

Sewer and Water Systems in Service

The sewer and water systems are stated substantially at cost, net of accumulated depreciation. Depreciation is provided using the straight line method over the estimated useful life of system components ranging from 7 to 50 years.

Public Employee Retirement Systems

The Borough participates in two public employee retirement systems. Both systems, single employer public retirement systems, are defined benefit pension plans which cover all uniform and non-uniform personnel employed on a full-time basis.

Transfers and Interfund Balances

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers.

Other outstanding balances between funds are reported as "due to/from other funds".

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 1 Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows, the Borough considers time deposits and highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, the Liquid Fuels Fund and the Capital Projects Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. There are no encumbrances as of December 31, 2017.

Total Columns on Combined Statements

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor is such data comparable to a consolidation.

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, Postemployment Benefit Plans Other Than Pension Plans (OPEB). The Borough adopted GASB Statement No. 74 for its December 31, 2017 financial statements. The adoption of this Statement affected disclosures only, as the Borough reports on the cash basis of accounting.

NOTE 2 Deposits and Investments

The Borough's current investment policy is to place as much of the available funds into interest bearing accounts as is feasible. Current cash requirements are kept in bank demand deposits.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 2 Deposits and Investments (Continued)

DEPOSITS:

As of December 31, 2017, the carrying amount of the Borough's deposits is \$2,669,774 and the bank balance is \$2,962,847. Of the bank balance, \$252,840 is covered by federal depository insurance.

The Borough requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation, \$2,710,007 at December 31, 2017, are collateralized using the pooled asset method to 100% of value as required by Pennsylvania Law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name, not in the Borough's name, and are considered uncollateralized for credit risk purposes.

INVESTMENTS:

Authorized types of investments for Borough funds are as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

Investments made by the Borough as of December 31, 2017, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 2 Deposits and Investments (Continued)

INVESTMENTS: (Continued)

Category 1 - Insured or registered, or securities held by the Borough or its agent in the Borough's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Borough's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Borough's name.

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	Fair Value/ Carrying <u>Amount</u>	<u>Market</u>
Mutual Funds	\$-0-	\$ -0-	\$14,675,660	\$14,675,660	\$14,675,660
	=====	=====	=====	=====	=====

NOTE 3 Capital Assets

The following is a summary of the changes in the capital asset activity for the year ended December 31, 2017:

	Balance December 31, <u>2016</u>	Increases (Decreases)	Balance December 31, <u>2017</u>
<u>Governmental activities:</u>			
Borough buildings,			
land & improvements	\$ 8,526,110	\$151,654	\$ -0-
Machinery & equipment	4,898,175	502,986	(105,541)
Recreation	<u>1,456,312</u>	<u>-0-</u>	<u>-0-</u>
			<u>1,456,312</u>
Governmental activities			
capital assets	\$14,880,597	\$654,640	\$(105,541)
	=====	=====	=====
			\$15,429,696

No depreciation has been provided for the governmental activities capital assets.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 3 Capital Assets (Continued)

The following is a summary of proprietary fund type property, plant, and equipment at December 31, 2017:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Enterprise Funds:</u>			
Sewer and Water Systems	\$5,051,590	\$4,468,903	\$9,520,493
Less accumulated depreciation	<u>3,522,692</u>	<u>4,182,372</u>	<u>7,705,064</u>
Sewer and Water Systems, Net of Accumulated Depreciation	\$1,528,898	\$ 286,531	\$1,815,429
	=====	=====	=====

Depreciation charged to operations for the Water Fund and the Sewer Fund was \$88,733 and \$38,697, respectively for the year ended December 31, 2017.

NOTE 4 Long-Term Debt

The following is a summary of general obligation notes and installment loans payable for the year ended December 31, 2017:

<u>General Obligation Notes and Loans</u>	<u>Payable January 1,</u>	<u>Issued</u>	<u>Retired</u>	<u>Payable December 31,</u>
Governmental-type:				
Series of 2011	\$ 103,323	\$ -0-	\$ 9,604	\$ 93,719
Series of 2015	5,417,000	-0-	484,000	4,933,000
Installment Loan	8,598	-0-	5,675	2,923
Installment Loan	151,401	-0-	54,133	97,268
Installment Loan	45,818	-0-	10,681	35,137
Installment Loan	<u>-0-</u>	<u>161,184</u>	<u>32,561</u>	<u>128,623</u>
Total	5,726,140	161,184	596,654	5,290,670
Business-type:				
Installment Loan	<u>23,508</u>	<u>-0-</u>	<u>23,508</u>	<u>-0-</u>
Total	23,508	-0-	23,508	-0-
Total	\$5,749,648	\$ 161,184	\$ 620,162	\$5,290,670
	=====	=====	=====	=====

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 4 Long-Term Debt (Continued)

The following is a summary of the details of general obligation notes, and installment loans payable for the year ended December 31, 2017.

General Obligation Note - Series of 2011

The \$150,000, 2011 general obligation note is due in installments through 2026 with interest at 2.0%. The principal outstanding as of December 31, 2017 is \$93,719.

General Obligation Note - Series of 2015

General Obligation Note, Series of 2015, in the aggregate principal amount of \$5,796,000, was issued August 27, 2015. Proceeds of the Note will be used to currently refund all of Borough's outstanding General Obligation Bonds, Series of 2010; pay the costs of issuing the Note; and purchase the new municipal complex acquisition, and various other capital projects. Principal and interest indebtedness is payable February 15, and August 15, with interest ranging from 2.12% to 2.95%. Maturity date is August 15, 2026. The principal outstanding at December 31, 2017, is \$4,933,000.

Installment Loan Payable

The Borough has an installment loan payable, secured by public safety equipment. The loan requires monthly installments of \$493, including principal and interest at 3.95% through 2018. The principal outstanding at December 31, 2017, is \$2,923.

Installment Loan Payable

The Borough has an installment loan payable, secured by public works equipment. The loan requires monthly installments of \$4,714, including principal and interest at 1.92% through 2019. The principal outstanding at December 31, 2017, is \$97,268.

Installment Loan Payable

The Borough has an installment loan payable, secured by public safety equipment. The loan requires annual payments of \$12,825, including principal and interest at 4.68% through 2020. The principal outstanding at December 31, 2017, is \$35,137.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 4 Long-Term Debt (Continued)

Installment Loan Payable

The Borough has an installment loan payable, secured by public safety equipment. The loan requires monthly installments of \$3,491, including principal and interest at 1.92% through 2021. The principal outstanding at December 31, 2017, is \$128,623.

Installment Loan Payable

The Borough has an installment loan payable, secured by water and sewer public works equipment. The loan requires quarterly installments of \$11,868, including principal and interest at 1.85% through 2017. The installment loan was paid off during 2017.

The annual debt service requirements to maturity for governmental-type general obligation notes, including interest are as follows, as of December 31, 2017:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 515,798	\$ 106,365	\$ 622,163
2019	526,996	95,439	622,435
2020	538,198	84,277	622,475
2021	549,404	72,877	622,281
2022	561,614	61,241	622,855
2023	572,828	68,369	641,197
2024	585,046	51,572	636,618
2025	597,269	34,416	631,685
2026	579,566	16,902	596,468
	<u>\$5,026,719</u>	<u>\$ 591,458</u>	<u>\$5,618,177</u>
	=====	=====	=====

The annual debt service requirements to maturity for governmental-type installment loans including interest are as follows, as of December 31, 2017:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 109,062	\$ 5,182	\$ 114,244
2019	94,338	2,809	97,147
2020	53,584	1,139	54,723
2021	6,967	16	6,983
	<u>\$ 263,951</u>	<u>\$ 9,146</u>	<u>\$ 273,097</u>
	=====	=====	=====

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans

The Borough maintains two single-employer, defined benefit pension plans. One plan, the Borough of Emmaus Police Pension Plan, covers uniformed police personnel employed on a full-time basis. The other plan, the Borough of Emmaus Employees' Pension Plan, covers full-time nonuniformed employees of the Borough.

Plan Description for the Uniformed Employees of the Borough of Emmaus

The Pension Plan for the Police Employees of the Borough of Emmaus is a single-employer defined benefit plan that covers all full-time uniformed employees of the Borough upon employment. The retirement benefit is equal to 50% of their final average monthly compensation during their last three years of employment. The normal retirement date is age 50 with 25 years of credited service and participants become 100% vested upon the completion of 12 years of service. The Plan also provides death and disability benefits. The authority under which the benefit provisions have been established, or may be amended, remains with the Council of the Borough of Emmaus. The Plan does not issue a stand-alone financial report.

Funding Policy for the Uniformed Employees of the Borough of Emmaus

The Borough is required to contribute amounts necessary to fund the Plan, using the actuarial basis specified by the Borough of Emmaus. If an actuarial study shows the plan to have insufficient assets to fund plan benefits, member contributions may be required. Effective January 1, 2009, members are required to contribute a percentage of their compensation to the Plan to assist in the funding of the plan benefit provisions. The required contribution rate for 2017 is 1.85%.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Plan Description for the Nonuniformed Employees of the Borough of Emmaus

The Pension Plan for the Nonuniformed Employees of the Borough of Emmaus is a single-employer defined benefit plan that covers all full-time nonuniformed employees of the Borough who have attained age 18. The plan was restated in 2015, but effective January 1, 2008. The normal retirement benefit is equal to 2.0% of their average monthly compensation times years of benefit service. The normal retirement date is age 65 with 5 years of credited service and participants become 100% vested upon the completion of 5 years of service. The Plan also provides early retirement, death and disability benefits. The authority under which the benefit provisions have been established, or may be amended, remains with the Council of the Borough of Emmaus. The Plan does not issue a stand-alone financial report.

Funding Policy for the Nonuniformed Employees of the Borough of Emmaus

The Borough and the nonuniformed employees of the Borough are required to contribute amounts necessary to fund the Plan, using the actuarial basis specified by the Borough of Emmaus. Nonuniformed Borough employees are required to contribute 2.6% of their compensation to the Plan, however, no additional voluntary employee contributions are permitted.

Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation for the current year are as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Annual required contribution	\$ 393,274	\$ 473,193
Interest on net pension obligation	-0-	-0-

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Adjustment to annual required contribution	-0-	-0-
Annual pension costs	393,274	473,193
Contributions made	393,274	473,193
Increase (decrease) in net pension obligation	-0-	-0-
Net pension obligation beginning of year	-0-	-0-
Net pension obligation end of year	\$ -0-	\$ -0-
	=====	=====

Annual Pension Cost and Net Pension Obligation

The annual required contribution for the current year was determined as part of the January 1, 2015, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% and 7.50% investment rate of return for the uniform and nonuniformed plans respectively, and (b) projected salary increases of 5.00% and 5.00% per year for the uniform and nonuniformed plan, respectively. Both (a) and (b) for both plans include an inflation component for moderate cost-of-living increases. The assumptions did not include postretirement benefit increases for either plan. The actuarial value of assets for both plans was determined using market value as determined by the trustee. For the uniformed plan the unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis. The remaining amortization period at January 1, 2017, was 12 years. For the nonuniformed plan the unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis. The remaining amortization period at January 1, 2017, was 10 years.

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Uniformed Plan	12/31/15	\$ 339,337	100%	\$ 0
	12/31/16	336,321	100%	0
	12/31/17	393,274	100%	0
Nonuniformed Plan	12/31/15	\$ 456,903	100%	\$ 0
	12/31/16	458,214	100%	0
	12/31/17	473,193	100%	0

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Plan Membership Information

Membership in the pension plans as of January 1, 2017, (the most recent date available) is as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Active employees	20	35
Retirees and beneficiaries currently receiving benefits	19	16
Terminated employees entitled to benefits but not yet receiving them	<u>0</u>	<u>11</u>
Total	39	62
	===	===

Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At December 31, 2017, the plans had the following investments in any one organization representing five percent or more of the Plans assets (other than investments issued or guaranteed by the U. S. Government) as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Federated Total Return Bond Fund	\$ 544,596	\$ 508,883
Dodge & Cox Income Fund	543,031	507,427
Met West Total Return Bond CL Fd	542,475	506,898
Northern Mid Cap Index Fund	507,900	477,325
Vanguard 500 Index Fund	755,752	710,274
Wells Fargo Core Bond Fund	542,590	507,023
Alpcorcomm Mgmt Comp Fund	378,872	356,076

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Uniformed Employees Pension Plan

At December 31, 2016 (the most recent date available), the Borough's net pension liability is \$2,265,986. The total pension liability of \$8,866,100 was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2016.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Changes in Net Pension Liability

The following table shows the changes in the Uniformed Employees plan net pension liability recognized over the measurement period (the most recent date available).

		<u>Increase/ (Decrease)</u>	
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2015	\$8,462,230	\$6,221,540	\$2,240,690
Changes for the year:			
Service cost	200,197		200,197
Interest	633,842		633,842
Differences between expected and actual experience			0
Changes of assumptions			0
Contributions-employer		336,321	(336,321)
Contributions-employee		29,606	(29,606)
Net investment income		466,409	(466,409)
Benefit payments and refunds	(430,169)	(430,169)	0
Administrative expense		(23,593)	23,593
Net changes	<u>403,870</u>	<u>378,574</u>	<u>25,296</u>
Balance at 12/31/2016	<u>\$8,866,100</u>	<u>\$6,600,114</u>	<u>\$2,265,986</u>

Pension Expense

For the year ended December 31, 2016 (the most recent date available), the actuarial determined uniformed employees plan pension expense is \$466,712. However, the Borough recognizes pension expense on the cash basis which totaled \$336,321.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Deferred Outflows and Deferred Inflows of Resources

At December 31, 2016 (the most recent date available), the Plan reported deferred outflows of resources and deferred inflows of resources related to the uniformed employees pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	<u>293,020</u>	<u>7,421</u>
Total	\$ 293,020 =====	\$ 7,421 =====

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

Year Ended December 31, 2017	\$ 95,819
2018	95,819
2019	95,817
2020	(1,856)
2021	0
Thereafter	0

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Nonuniformed Employees Pension Plan

At December 31, 2016 (the most recent date available), the Borough's net pension liability is \$2,389,059. The total pension liability of \$8,407,509 was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2016.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

Note 5 Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

The following table shows the changes in the Nonuniformed Employees plan net pension liability recognized over the measurement period (the most recent date available).

		<u>Increase/ (Decrease)</u>	
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2015	\$7,772,138	\$5,307,070	\$2,465,068
Changes for the year:			
Service cost	232,026		232,026
Interest	593,317		593,317
Differences between expected and actual experience			0
Changes of assumptions			0
Contributions-employer		458,214	(458,214)
Contributions-employee		53,614	(53,614)
Net investment income		409,921	(409,921)
Benefit payments and refunds	(189,972)	(189,972)	0
Administrative expense		(20,397)	20,397
Net changes	<u>635,371</u>	<u>711,380</u>	<u>(76,009)</u>
Balance at 12/31/2016	<u>\$8,407,509</u>	<u>\$6,018,450</u>	<u>\$2,389,059</u>

Pension Expense

For the year ended December 31, 2016 (the most recent date available), the actuarial determined nonuniformed employees plan pension expense is \$471,693. However, the Borough recognizes pension expense on the cash basis which totaled \$458,214.

Deferred Outflows and Deferred Inflows of Resources

At December 31, 2016 (the most recent date available), the Plan reported deferred outflows of resources and deferred inflows of resources related to the nonuniformed employees pensions from the following sources:

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 5 Defined Benefit Pension Plans (Continued)

Deferred Outflows and Deferred Inflows of Resources (Continued)

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	<u>246,140</u>	<u>7,442</u>
Total	\$ 246,140 =====	\$ 7,442 =====

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

Year Ended December 31, 2017	\$ 80,185
2018	80,185
2019	80,187
2020	(1,859)
2021	0
Thereafter	0

Actuarial Assumptions

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

Actuarial cost method - Entry Age Normal
Investment return - 7.50% per annum
Salary increases - 5% compounded annually
Mortality rates were based on the RP-2000 Mortality Table

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

Note 5 Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liabilities was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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 liabilities.

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	<u>Net Pension Liability</u>		
	1% Decrease	Current	1% Increase
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
Uniformed Employee	\$ 3,336,254	\$ 2,265,986	\$ 1,371,584
Nonuniformed Employee	\$ 3,418,818	\$ 2,389,059	\$ 1,500,968

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 6 Postemployment Benefits Other than Pensions

Plan Description

The Borough provides postemployment benefits coverage to Borough employees based on eligibility requirements set for each group employees. The benefits are based on negotiated memorandums of understanding with employee contracts. The Plan provides medical, Rx, dental, and vision benefits to eligible retired police officers, spouses, and dependents and to eligible retired non-police employees and spouses. The Plan does not issue a stand-alone financial report.

Funding Policy

The contribution requirements of plan members and the Borough are established and may be amended by the Borough. The required contribution is based on projected pay-as-you-go financing requirements.

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$20,443,135 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,443,135.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Assumptions and Methods

In the January 1, 2017 actuarial valuation, the Entry Age Normal Actuarial Cost method was used. Pays are assumed to increase over that period at the assumed rate of inflation. Entry Age is calculated based upon date of hire. Assumed exit ages are based upon the actuarial assumptions as to termination, disability, death or retirement. The actuarial assumptions included a 3.75% investment rate of return, and an annual medical/Rx and dental/vision cost trend of 8.5% and 3.0% respectively, in 2017, and 8.0% and 3.0% in 2018.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 6 Postemployment Benefits Other than Pensions (Continued)

Actuarial Assumptions and Methods (Continued)

As of the January 1, 2017 valuation date, no assets were set aside in a postemployment benefits other than pensions (OPEB) trust.

Net OPEB Liability by Employee Group

Total OPEB Liability
(Actuarial Accrued Liability)

	<u>Police</u>	<u>Non-Police</u>	<u>Total</u>
Active Members	\$ 6,440,290	\$ 5,491,864	\$11,932,154
Retired Members	<u>6,862,611</u>	<u>1,648,370</u>	<u>8,510,981</u>
Total	\$13,302,901	\$ 7,140,234	\$20,443,135
Fiduciary Net Position	\$ 0	\$ 0	\$ 0
Net OPEB Liability (Asset)	\$13,302,901	7,140,234	20,443,135

Net OPEB Liability Sensitivity

The projected liabilities shown in this valuation of the plan are dependent upon the assumptions made. The assumed discount rate and medical trend rates significantly impact the expected costs of the plan. To highlight the effect of these assumptions on the calculated liabilities of the plan, included is a sensitivity analysis below. The impact on the Total OPEB Liability of a change of 1% (decrease and increase) in the discount rate and medical trend rates are show

Discount Rate	<u>2.75%</u>	<u>Valuation Rate</u> <u>3.75%</u>	<u>4.75%</u>
Total OPEB Liability	\$23,540,028	\$20,443,135	\$17,952,570
Medical Trend Rate	<u>Valuation</u> <u>Rates -1%</u>	<u>Valuation</u> <u>Current Rates</u>	<u>Valuation</u> <u>Rates +1%</u>
Total OPEB Liability	\$17,959,890	\$20,443,135	\$23,618,268

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 7 Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, with optional participation available to all Borough employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship. Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997. The Borough approved plan amendments such that plan assets are held in trust, with the Borough serving as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose.

NOTE 8 Compensated Absences

Accumulated unpaid vacation and sick pay benefits accrue based on length of service and employment. There was no material unused accrued vacation or sick pay benefits as of December 31, 2017. Also, in accordance with the provisions of Governmental Accounting Standards Board, no liability is recorded for the non-vested accumulated rights to receive vacation and sick pay benefits.

NOTE 9 Litigation

Various claims and lawsuits are pending against the Borough. Defenses are being conducted by counsel for the Borough or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the Borough's financial position. The Borough is also involved in an arbitration matter with the Pennsylvania Labor Relations Board regarding the Borough of Emmaus Volunteer Fire Company. The matter is under appeal and the cost to the Borough cannot be estimated at this time.

NOTE 10 Contingencies

The Borough participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2017, have not yet been conducted. Accordingly, the Borough's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Borough expects such amounts, if any, to be immaterial.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE 11 Deficit Fund Balances

The Capital Projects Fund had a deficit fund balance at December 31, 2017.

The General Fund's General Government budget category had expenditures in excess of appropriations for the year ended December 31, 2017.

NOTE 12 Commitments to Related Parties

The Borough of Emmaus has entered into an agreement to guarantee the Borough of Emmaus Fire Department's 2002 2.0% interest Pennsylvania Emergency Management Agency (PEMA) loan in the amount of \$150,000, for the purchase of a Central States Custom Rescue Pumper truck.

NOTE 13 Risk Management

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverages for the current year or the three prior years.

NOTE 14 Subsequent Events

Subsequent events have been evaluated through August 22, 2018, which was the date financial statements were available to be issued.

BOROUGH OF EMMAUS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - CASH BASIS
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes	\$ 5,839,750	\$ 5,839,750	\$ 6,021,271	\$ 181,521
Licenses and permits	201,270	201,270	200,633	(637)
Fines and forfeits	55,500	55,500	60,071	4,571
Interest and rents	185,242	185,242	201,921	16,679
Intergovernmental revenues	544,693	544,693	645,478	100,785
Charges for service	2,323,421	2,323,421	2,457,579	134,158
Miscellaneous revenues	593,350	593,350	138,600	(454,750)
Total revenues	9,743,226	9,743,226	9,725,553	(17,673)
EXPENDITURES				
Current				
General government	515,389	515,389	623,963	(108,574)
Public safety	3,592,104	3,592,104	3,498,878	93,226
Public works	1,846,145	1,846,145	1,797,626	48,519
Culture and recreation	522,569	522,569	507,725	14,844
Community development	1,500	1,500	1,500	0
Employee benefits	2,343,426	2,343,426	2,314,116	29,310
Insurance and miscellaneous	376,745	376,745	139,190	237,555
Capital outlay	10,000	10,000	7,636	2,364
Total expenditures	9,207,878	9,207,878	8,890,634	317,244
Excess (deficiency) of revenues over (under) expenditures	535,348	535,348	834,919	299,571
OTHER FINANCING SOURCES (USES)				
Operating transfers in	0	0	0	0
Operating transfers out	(1,485,348)	(1,485,348)	(1,194,251)	291,097
Net change in fund balances	(950,000)	(950,000)	(359,332)	590,668
Fund Balances, January 1	950,000	950,000	2,575,259	1,625,259
Fund Balances, December 31	\$ 0	\$ 0	\$ 2,215,927	\$ 2,215,927

FRANCE, ANDERSON, BASILE and COMPANY, P.C.
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INDEPENDENT AUDITORS' 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

To the Borough Council
Borough of Emmaus, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Emmaus, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Borough of Emmaus, Pennsylvania's basic financial statements, and have issued our report thereon dated August 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Emmaus, Pennsylvania's internal control over financial reporting (internal control) to determine the 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 Borough of Emmaus, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Emmaus, Pennsylvania's internal control.

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 Borough's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Emmaus, Pennsylvania'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.

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 Borough'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 Borough's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Trance, Andrew, Bails and Gaffney, P.C.

Emmaus, Pennsylvania
August 22, 2018