

FINANCIAL STATEMENTS

BOROUGH OF EMMAUS

DECEMBER 31, 2018

BOROUGH OF EMMAUS
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Borough Council
Borough of Emmaus, Pennsylvania

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Borough's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for

the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position 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 December 31, 2018, and the respective changes in cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Emmaus, Pennsylvania's basic financial statements. The budgetary comparison information on page 43, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2019, on our consideration of the Borough of Emmaus, Pennsylvania's internal control over financial reporting and our tests of its compliance

with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Borough of Emmaus, Pennsylvania's internal control over financial reporting and compliance.

Francis Anderson, Director and Chief, P.C.

Emmaus, Pennsylvania
August 21, 2019

BOROUGH OF EMMAUS
STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2018

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 2,524,694	\$ 578,781	\$ 3,103,475
Internal balances	62,604	(62,604)	0
Other assets	0	0	0
Total Current Assets	<u>2,587,298</u>	<u>516,177</u>	<u>3,103,475</u>
Capital assets:			
Buildings, land & improvements	8,677,764	0	8,677,764
Machinery & equipment	5,547,628	0	5,547,628
Recreation	1,456,312	0	1,456,312
Water/sewer system, net	0	1,851,657	1,851,657
Total Capital Assets	<u>15,681,704</u>	<u>1,851,657</u>	<u>17,533,361</u>
Total Assets	<u>18,269,002</u>	<u>2,367,834</u>	<u>20,636,836</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Payroll taxes withholdings	1,069	0	1,069
Current portion of long-term debt	639,723	0	639,723
Total Current Liabilities	<u>640,792</u>	<u>0</u>	<u>640,792</u>
Noncurrent Liabilities:			
Developer escrows	55,540	0	55,540
Other liabilities	115,758	0	115,758
Long-term debt, net of current portion	4,125,643	0	4,125,643
Total Noncurrent Liabilities	<u>4,296,941</u>	<u>0</u>	<u>4,296,941</u>
Total Liabilities	<u>4,937,733</u>	<u>0</u>	<u>4,937,733</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	10,916,338	1,851,657	12,767,995
Restricted	1,559,965	0	1,559,965
Unrestricted	<u>854,966</u>	<u>516,177</u>	<u>1,371,143</u>
Total Net Position	<u>\$13,331,269</u> =====	<u>\$ 2,367,834</u> =====	<u>\$15,699,103</u> =====

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

BOROUGH OF EMMAUS
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

			<u>Program Revenues</u>	
			Operating	Capital
			Grants and	Grants and
	<u>Expenses</u>	<u>Charges for</u>	<u>Contributions</u>	<u>Contributions</u>
		<u>Services</u>		
<u>Governmental Activities</u>				
General government	\$ 867,527	\$ 150,690	\$ 24,210	\$ 51,846
Public safety	4,532,086	945,737	378,440	0
Public works	2,151,660	1,225,059	464,551	30,000
Culture and recreation	1,053,865	219,030	0	500,000
Community development	1,580	0	0	0
Employee benefits	2,300,019	0	102,053	0
Insurance and miscellaneous	134,262	0	0	0
Interest & debt related expenses	111,625	0	0	0
Total Governmental Activities	<u>\$11,152,624</u>	<u>\$2,540,516</u>	<u>\$ 969,254</u>	<u>\$ 581,846</u>
<u>Business-type Activities</u>				
Water	\$ 1,003,864	\$1,000,061	\$ 0	\$ 0
Sewer	<u>1,045,202</u>	<u>1,364,744</u>	<u>0</u>	<u>0</u>
Total Business-type Activities	<u>\$ 2,049,066</u>	<u>\$2,364,805</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$13,201,690</u>	<u>\$4,905,321</u>	<u>\$ 969,254</u>	<u>\$ 581,846</u>
	=====	=====	=====	=====

Property taxes, levied for general purposes
Property taxes, levied for fire protection
Other taxes levied for general purposes
Licenses and permits
Fines and forfeits
Investment earnings
Miscellaneous income
Gain (loss) on disposal of assets
Transfers between activities

Total general revenues

Change in net position

Net position, January 1

Net position, December 31

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

BOROUGH OF EMMAUS
STATEMENT OF ACTIVITIES - CASH BASIS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018

Net (Expense) Revenue and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (640,781)	\$ 0	\$ (640,781)
(3,207,909)	0	(3,207,909)
(432,050)	0	(432,050)
(334,835)	0	(334,835)
(1,580)	0	(1,580)
(2,197,966)	0	(2,197,966)
(134,262)	0	(134,262)
<u>(111,625)</u>	<u>0</u>	<u>(111,625)</u>
 \$ (7,061,008)	 \$ 0	 \$ (7,061,008)
 \$ 0	 \$ (3,803)	 \$ (3,803)
<u>0</u>	<u>319,542</u>	<u>319,542</u>
 \$ 0	 \$ 315,739	 \$ 315,739
<u>0</u>	<u>315,739</u>	<u>315,739</u>
 \$ (7,061,008)	 \$ 315,739	 \$ (6,745,269)
 3,971,638	 0	 3,971,638
880,559	0	880,559
2,226,594	0	2,226,594
191,053	0	191,053
66,333	0	66,333
258,809	3,209	262,018
276,258	0	276,258
70,000	11,000	81,000
<u>275,988</u>	<u>(275,988)</u>	<u>0</u>
 \$ 8,217,232	 \$ (261,779)	 \$ 7,955,453
 1,156,224	 53,960	 1,210,184
<u>\$ 12,175,045</u>	<u>\$ 2,313,874</u>	<u>\$ 14,488,919</u>
 \$ 13,331,269	 \$ 2,367,834	 \$ 15,699,103
<u>=====</u>	<u>=====</u>	<u>=====</u>

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

BOROUGH OF EMMAUS
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

<u>ASSETS</u>	<u>General</u>	<u>Fire</u>	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 800,795	\$ 561,875	\$ 431,931	\$ 729,966	\$ 127	\$2,524,694
Due from other funds	1,195,918		12,168	42,663		1,250,749
Other assets						0
Total Assets	\$1,996,713	\$ 561,875	\$ 444,099	\$ 772,629	\$ 127	\$3,775,443

LIABILITIES AND FUND BALANCES

<u>LIABILITIES:</u>						
Payroll tax withholdings	\$ 1,069	\$	\$	\$	\$	\$ 1,069
Due to other funds	9,562		22,280	1,156,303		1,188,145
Developer escrows	55,540					55,540
Other liabilities	115,758					115,758
Total Liabilities	181,929	0	22,280	1,156,303	0	1,360,512

FUND BALANCES:

Nonspendable	1,156,303					1,156,303
<u>Restricted for:</u>						
Public safety		561,875				561,875
Public works			421,819		127	421,819
Debt service						127
<u>Committed:</u>						
Public safety	25,476			126,913		152,389
Public works				423,755		423,755
Unassigned	633,005			(934,342)		(301,337)
Total Fund Balances	1,814,784	561,875	421,819	(383,674)	127	2,414,931

Total Liabilities and Fund Balances

Total Liabilities and Fund Balances	\$1,996,713	\$ 561,875	\$ 444,099	\$ 772,629	\$ 127	\$3,775,443
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The accompanying notes are an integral part of the financial statements.

BOROUGH OF EMMAUS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General</u>	<u>Fire</u>	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 6,198,232	\$ 880,559	\$	\$	\$	\$ 7,078,791
Licenses and permits	191,053					191,053
Fines and forfeits	66,333					66,333
Interest and rents	242,897	1,029	9,541	5,342		258,809
Intergovernmental revenues	1,117,828	91,555	341,717			1,551,100
Charges for service	2,534,362	6,154				2,540,516
Miscellaneous revenues	345,183	1,075				346,258
Total Revenue	<u>10,695,888</u>	<u>980,372</u>	<u>351,258</u>	<u>5,342</u>	<u>0</u>	<u>12,032,860</u>
EXPENDITURES						
Current						
General government	748,006			119,521		867,527
Public safety	3,886,923	580,684	218,499	30,740	33,739	4,532,086
Public works	1,807,961			125,200		2,151,660
Culture and recreation	1,035,370			18,495		1,053,865
Community development	1,580					1,580
Employee benefits	2,300,019					2,300,019
Insurance and miscellaneous	134,262					134,262
Debt service - principal retirement					624,860	624,860
Debt service - interest & fiscal charges					111,625	111,625
Capital outlay			21,504	230,504		252,008
Total Expenditures	<u>9,914,121</u>	<u>580,684</u>	<u>240,003</u>	<u>524,460</u>	<u>770,224</u>	<u>12,029,492</u>
Excess (deficiency) of revenues over (under) expenditures	<u>781,767</u>	<u>399,688</u>	<u>111,255</u>	<u>(519,118)</u>	<u>(770,224)</u>	<u>3,368</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of general long-term debt				99,556		99,556
Operating transfers in				800,257	770,224	1,570,481
Operating transfers out	<u>(1,182,910)</u>	<u>(111,583)</u>				<u>(1,294,493)</u>
Total Other Financing Sources (Uses)	<u>(1,182,910)</u>	<u>(111,583)</u>	<u>0</u>	<u>899,813</u>	<u>770,224</u>	<u>375,544</u>
Net change in fund balances	<u>(401,143)</u>	<u>288,105</u>	<u>111,255</u>	<u>380,695</u>	<u>0</u>	<u>378,912</u>
FUND BALANCES, JANUARY 1	<u>2,215,927</u>	<u>273,770</u>	<u>310,564</u>	<u>(764,369)</u>	<u>127</u>	<u>2,036,019</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,814,784</u>	<u>\$ 561,875</u>	<u>\$421,819</u>	<u>\$ (383,674)</u>	<u>\$ 127</u>	<u>\$ 2,414,931</u>
	=====	=====	=====	=====	=====	=====

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

BOROUGH OF EMMAUS
STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 263,764	\$ 315,017	\$ 578,781
Due from other funds	<u> </u>	<u>199,494</u>	<u>199,494</u>
Total Current Assets	<u>263,764</u>	<u>514,511</u>	<u>778,275</u>
<u>Noncurrent Assets:</u>			
Water system, net of accumulated depreciation	1,461,897		1,461,897
Sewer system, net of accumulated depreciation	<u> </u>	<u>389,760</u>	<u>389,760</u>
Total Assets	<u>\$1,725,661</u> =====	<u>\$ 904,271</u> =====	<u>\$2,629,932</u> =====
<u>LIABILITIES</u>			
Due to other funds	\$ 236,223	\$ 25,875	\$ 262,098
Other liabilities	<u> 0</u>	<u> 0</u>	<u> 0</u>
Total Liabilities	<u>236,223</u>	<u>25,875</u>	<u>262,098</u>
<u>NET POSITION</u>			
Net investment in capital assets	1,461,897	389,760	1,851,657
Unrestricted	<u>27,541</u>	<u>488,636</u>	<u>516,177</u>
Total Net Position	<u>\$1,489,438</u> =====	<u>\$ 878,396</u> =====	<u>\$2,367,834</u> =====

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

BOROUGH OF EMMAUS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
OPERATING REVENUES			
Charges for services	\$ 1,000,061	\$1,364,744	\$2,364,805
Total Operating Revenues	<u>1,000,061</u>	<u>1,364,744</u>	<u>2,364,805</u>
OPERATING EXPENSES			
Salaries, wages and benefits	552,322	482,065	1,034,387
Contractual services	239,599	501,698	741,297
Supplies	35,632	7,710	43,342
Materials	5,329	3,839	9,168
Utilities	83,331	5,024	88,355
Depreciation	<u>87,651</u>	<u>44,866</u>	<u>132,517</u>
Total Operating Expenses	<u>1,003,864</u>	<u>1,045,202</u>	<u>2,049,066</u>
Operating Income (Loss)	<u>(3,803)</u>	<u>319,542</u>	<u>315,739</u>
NONOPERATING REVENUES (EXPENSES)			
Proceeds fixed asset disposition		11,000	11,000
Interest income	<u>1,406</u>	<u>1,803</u>	<u>3,209</u>
Total Nonoperating Revenues	<u>1,406</u>	<u>12,803</u>	<u>14,209</u>
Net Income (Loss) Before			
Operating Transfers	(2,397)	332,345	329,948
Operating Transfers	<u>(30,639)</u>	<u>(245,349)</u>	<u>(275,988)</u>
Change in Net Position	(33,036)	86,996	53,960
Net Position -			
Beginning of Year	<u>1,522,474</u>	<u>791,400</u>	<u>2,313,874</u>
Net Position -			
End of Year	<u>\$ 1,489,438</u>	<u>\$ 878,396</u>	<u>\$2,367,834</u>
	=====	=====	=====

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

BOROUGH OF EMMAUS
STATEMENT OF CASH FLOWS - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (3,803)	\$ 319,542	\$ 315,739
Item not requiring cash			
Depreciation	<u>87,651</u>	<u>44,866</u>	<u>132,517</u>
Subtotal	83,848	364,408	448,256
(Increase) decrease in due - from other funds	0	0	0
Increase (decrease) in due - to other funds	<u>0</u>	<u>0</u>	<u>0</u>
Net Cash Flows From Operating Activities	<u>83,848</u>	<u>364,408</u>	<u>448,256</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES			
Operating transfers	<u>(30,639)</u>	<u>(245,349)</u>	<u>(275,988)</u>
Net Cash Flows From Noncapital Activities	<u>(30,639)</u>	<u>(245,349)</u>	<u>(275,988)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds fixed asset disposition		11,000	11,000
Additions to water/sewer systems	<u>(20,650)</u>	<u>(148,095)</u>	<u>(168,745)</u>
Net Cash Flows From Financing Activities	<u>(20,650)</u>	<u>(137,095)</u>	<u>(157,745)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>1,406</u>	<u>1,803</u>	<u>3,209</u>
Net Cash Flows From Investing Activities	<u>1,406</u>	<u>1,803</u>	<u>3,209</u>
Net Increase (Decrease) in Cash and Cash Equivalents	33,965	(16,233)	17,732
Cash and Cash Equivalents, January 1	<u>229,799</u>	<u>331,250</u>	<u>561,049</u>
Cash and Cash Equivalents, December 31	<u>\$ 263,764</u> =====	<u>\$ 315,017</u> =====	<u>\$ 578,781</u> =====

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

BOROUGH OF EMMAUS
STATEMENT OF NET POSITION - CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Police Pension Plan</u>	<u>Employee Pension Trust</u>	<u>Total Fiduciary Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 230,142	\$ 233,486	\$ 463,628
Investments, at fair value:			
Mutual funds	<u>6,913,535</u>	<u>6,777,709</u>	<u>13,691,244</u>
Total investments	<u>6,913,535</u>	<u>6,777,709</u>	<u>13,691,244</u>
Accrued income	<u>373</u>	<u>370</u>	<u>743</u>
Total Assets	<u>7,144,050</u>	<u>7,011,565</u>	<u>14,155,615</u>
<u>LIABILITIES</u>			
None	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<u>NET POSITION</u>			
Restricted for pension benefits	\$7,144,050 =====	\$7,011,565 =====	\$14,155,615 =====

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

BOROUGH OF EMMAUS
STATEMENT OF CHANGES IN NET POSITION - CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Police Pension Plan	Employee Pension Trust	Total Fiduciary Funds
<u>ADDITIONS:</u>			
Contributions,			
Employer	\$ 547,120	\$ 500,259	\$ 1,047,379
Employee	57,586	54,970	112,556
Employer health/welfare	<u>4,617</u>	<u>0</u>	<u>4,617</u>
Total Contributions	<u>609,323</u>	<u>555,229</u>	<u>1,164,552</u>
Investment income,			
Net (depreciation) in fair			
value of investments	(590,843)	(576,213)	(1,167,056)
Interest and dividends	<u>183,794</u>	<u>178,011</u>	<u>361,805</u>
	(407,049)	(398,202)	(805,251)
Less: investment expenses	<u>0</u>	<u>0</u>	<u>0</u>
Net Investment Income	<u>(407,049)</u>	<u>(398,202)</u>	<u>(805,251)</u>
Miscellaneous income	17,418	0	17,418
Total Additions	<u>219,692</u>	<u>157,027</u>	<u>376,719</u>
<u>DEDUCTIONS:</u>			
Benefits	455,470	306,354	761,824
Administrative expenses	30,316	29,773	60,089
Other	<u>74,851</u>	<u>0</u>	<u>74,851</u>
Total Deductions	<u>560,637</u>	<u>336,127</u>	<u>896,764</u>
Change in net position	(340,945)	(179,100)	(520,045)
Net position restricted			
for pension benefits,			
Beginning of year	<u>7,484,995</u>	<u>7,190,665</u>	<u>14,675,660</u>
End of year	<u>\$7,144,050</u>	<u>\$7,011,565</u>	<u>\$14,155,615</u>
	=====	=====	=====

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

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and accompanying financial statements of the Borough of Emmaus (the Borough) conform to the cash basis of accounting as applicable to governmental units. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Principles Determining Scope of Reporting Entity

The Borough Council, a seven member group, and a Mayor, is the level of government responsible for providing a full range of municipal services including those mandated by statute or ordinance. These include public safety, highways and streets, culture and recreation, public improvements, planning and zoning, and general administrative services. The Borough receives funding from local and state government sources and must comply with the concomitant requirements of these funding source entities.

In evaluating how to define the Borough, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth by GASB Statement 14, as amended. The criteria for including a potential component unit within the financial reporting entity is the significance of the potential component unit's operational or financial relationship with the Borough. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the Borough.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Borough as a whole excluding fiduciary activities such as employee pension plans and developer escrow funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined in item b. below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the cash basis of accounting is used as appropriate:

a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus (Continued)

focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide and fund financial statements, governmental and business-like activities are presented using the cash basis of accounting. This basis of accounting recognizes assets, liabilities, net position/fund equity, revenues and expenditures when they result from cash transactions. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Financial Statement Presentation

The Borough reports the following governmental fund types:

The General Fund is the general operating fund of the Borough. Substantially all tax revenues, federal and state aid (except revenues and aid restricted for use in the Special Revenue Fund) and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the budget which provides for the Borough's day-to-day operations.

The Fire Fund and State Liquid Fuels Highway Aid Fund (Liquid Fuels Fund) are the Borough's special revenue funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources other than expendable trusts, or major capital projects that are legally restricted to expenditures for specific purposes.

The Capital Projects Fund accounts for resources used to construct or acquire fixed assets and capital improvements. Resources of the Capital Projects Fund are derived principally from operating transfers, long-term debt proceeds and investment earnings.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

The Debt Service Fund accounts for the accumulation of resources for, and payment of, interest and principal on long-term obligations.

The Borough reports the following enterprise fund types:

The Water Fund and Sewer Fund are the Enterprise Funds. Enterprise Funds account for the provisions of water and sewer services to some residents of the Borough. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, financing and related debt service, and billings and collections.

The Borough also reports the following fiduciary fund types:

The Police Pension Plan and Employee Pension Trust are used to account for fiduciary resources legally held in trust for the receipt, investment, and distribution of retirement benefits.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Borough or through external restrictions imposed by creditors, grantors, or laws or other regulations of other governments.

Fund Balance Reporting

Fund balance is divided into five classifications based primarily on the extent to which the Borough is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criteria includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

BOROUGH OF EMMAUS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Fund Balance Reporting (Continued)

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the Borough to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Legal enforceability means that the Borough can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Borough Council. Those committed amounts cannot be used for any other purpose unless the Borough Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Borough Council separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Borough for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amounts that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Borough Council.