

BOROUGH OF EMMAUS

**Financial Statements,
Independent Auditor's Report
and Supplementary Information**

December 31, 2019

**BOROUGH OF EMMAUS
TABLE OF CONTENTS**

	Page(s)
Independent Auditor's Report	1 - 3
<u><i>Basic Financial Statements:</i></u>	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis – Governmental Funds	6
Reconciliation of the Governmental Funds Statement of Assets, Liabilities and Fund Balances to the Statement of Net Position – Modified Cash Basis	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to The Statement of Activities – Modified Cash Basis	9
Statement of Net Position – Modified Cash Basis – All Proprietary Funds	10
Statement of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis – All Proprietary Funds	11
Statement of Cash Flows – Modified Cash Basis – All Proprietary Funds	12
Statement of Net Position – Modified Cash Basis – All Fiduciary Funds	13
Statement of Changes in Net Position – Modified Cash Basis – All Fiduciary Funds	14
Notes to Financial Statements	15 - 47
<u><i>Required Supplementary Information:</i></u>	
General Fund - Schedule of Revenues and Other Financing Sources – Modified Cash Basis – Budget Comparison	49
General Fund - Schedule of Expenditures and Other Financing Uses – Modified Cash Basis – Budget Comparison	50
Schedule of Borough Contributions – Non-Uniform Pension Plan	51
Notes to Required Supplementary Schedules – Non-Uniform Pension Plan	52
Schedule of Changes in Net Pension Liability and Related Ratios – Non-Uniform Pension Plan	53

Schedule of Borough Contributions – Uniformed Pension Plan	54
Schedule of Changes in Net Pension Liability and Related Ratios – Uniformed Pension Plan	55
Notes to Required Supplementary Schedules – Uniformed Pension Plan	56
<u><i>Other Supplementary Information:</i></u>	
Combining Balance Sheet - Modified Cash Basis - All Special Revenue Funds	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – All Special Revenue Funds	59
Combining Statement of Net Position – Modified Cash Basis – All Pension Funds	60
Combining Statement of Changes in Net Position – Modified Cash Basis – All Pension Funds	61
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>	62 - 64

INDEPENDENT AUDITOR'S REPORT

To the Members of the Borough Council
Borough of Emmaus
Emmaus, PA

Report on the Financial Statements

We have audited the accompanying modified-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, as of and for the year ended December 31, 2019, 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 modified cash basis of accounting described in Note 2; this includes determining that the modified 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.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Borough's financial statements do not include all disclosures as required by Statement of Governmental Accounting Standards (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In our opinion, disclosure of that information is required to conform with GASB No. 75; however, management believes it is impracticable to develop the information.

Opinions

In our opinion, except for the omission of the information discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified 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 as of December 31, 2019, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Management has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not to be a part of, the basic financial statements.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified-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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison and pension information on pages 49-56 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Borough of Emmaus' basic financial statements. Management's combining schedules on pages 58-61 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020 on our consideration of the Borough of Emmaus' 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 the Borough of Emmaus' 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' internal control over financial reporting and compliance.

Corybell, Rappold & Yasaita LLP

October 29, 2020

BOROUGH OF EMMAUS
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and Cash Equivalents	\$ 1,963,509	\$ 331,127	\$ 2,294,636
Internal Balances	1,650,748	199,494	1,850,242
Total Current Assets	<u>3,614,257</u>	<u>530,621</u>	<u>4,144,878</u>
Noncurrent Assets:			
Land, Building and Improvements	9,167,307	-	9,167,307
Machinery and Equipment	6,155,117	-	6,155,117
Recreation	1,479,806	-	1,479,806
Water and Sewer System	-	10,561,573	10,561,573
Accumulated Depreciation	-	(8,028,616)	(8,028,616)
Total Noncurrent Assets	<u>16,802,230</u>	<u>2,532,957</u>	<u>19,335,187</u>
TOTAL ASSETS	<u>\$ 20,416,487</u>	<u>\$ 3,063,578</u>	<u>\$ 23,480,065</u>
LIABILITIES			
Current Liabilities:			
Accrued Expenses	\$ 1,952	\$ -	\$ 1,952
Internal Balances	1,188,144	662,098	1,850,242
Current Portion of Capital Lease Obligations	77,719	-	77,719
Current Portion of Long-Term Debt	610,917	-	610,917
Total Current Liabilities	<u>1,878,732</u>	<u>662,098</u>	<u>2,540,830</u>
Noncurrent Liabilities:			
Capital Lease Obligations	206,703	-	206,703
Long-Term Debt	3,514,726	-	3,514,726
Total Noncurrent Liabilities	<u>3,721,429</u>	<u>-</u>	<u>3,721,429</u>
TOTAL LIABILITIES	<u>\$ 5,600,161</u>	<u>\$ 662,098</u>	<u>\$ 6,262,259</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	\$ 12,392,165	\$ 2,532,957	\$ 14,925,122
Restricted for:			
Capital Projects	1,087,954	-	1,087,954
Special Revenue	(68,349)	-	(68,349)
Unassigned	1,404,556	(131,477)	1,273,079
TOTAL NET POSITION	<u>\$ 14,816,326</u>	<u>\$ 2,401,480</u>	<u>\$ 17,217,806</u>

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

BOROUGH OF EMMAUS
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 3,358,073	\$ 44,133	\$ 23,694	\$ 47,898	\$ (3,242,348)	\$ -	\$ (3,242,348)
Public Safety	5,075,345	1,002,753	567,207	-	(3,505,385)	-	(3,505,385)
Public Works	1,299,500	-	409,974	244,581	(644,945)	-	(644,945)
Cultural and Recreation	556,439	190,159	-	-	(366,280)	-	(366,280)
Interest on Long-Term Debt	106,062	-	-	-	(106,062)	-	(106,062)
Total Governmental Activities	10,395,419	1,237,045	1,000,875	292,479	(7,865,020)	-	(7,865,020)
Business Type Activities:							
Water	1,100,122	1,041,656	-	-	-	(58,466)	(58,466)
Sewer	1,383,032	1,371,967	-	260,000	-	248,935	248,935
Refuse	903,747	1,522,812	-	-	-	619,065	619,065
Total Business-Type Activities	3,386,901	3,936,435	-	260,000	-	809,534	809,534
Total Primary Government	\$ 13,782,320	\$ 5,173,480	\$ 1,000,875	\$ 552,479	\$ (7,865,020)	\$ 809,534	\$ (7,055,486)
General Revenues:							
Taxes:							
Property Taxes, levied for general purposes, net					\$ 4,572,026	\$ -	\$ 4,572,026
Property Taxes, levied for fire protection, net					880,185	-	880,185
Other Taxes, levied for general purposes, net					2,175,264	-	2,175,264
Licenses and Permits					280,690	-	280,690
Fines and Forfeits					50,567	-	50,567
Miscellaneous Income					236,142	-	236,142
Interest Income					371,624	7,691	379,315
Transfers In/(Out)					783,579	(783,579)	-
Total General Revenues, Special Items, Extraordinary Items, and Transfers					9,350,077	(775,888)	8,574,189
Change in Net Position					1,485,057	33,646	1,518,703
Net Position - Beginning					13,331,269	2,367,834	15,699,103
Net Position - Ending					\$ 14,816,326	\$ 2,401,480	\$ 17,217,806

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

BOROUGH OF EMMAUS
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES –
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	Major Funds			Non-Major Funds	Total
	General	Special Revenue	Capital Projects	Debt Service	
ASSETS					
Cash and Cash Equivalents	\$ 793,387	\$ 524,704	\$ 645,291	127	\$ 1,963,509
Due from Other Funds	1,195,917	12,168	442,663	-	1,650,748
TOTAL ASSETS	\$ 1,989,304	\$ 536,872	\$ 1,087,954	\$ 127	\$ 3,614,257
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued Expenses	\$ 1,952	\$ -	\$ -	\$ -	\$ 1,952
Due to Other Funds	9,561	22,280	1,156,303	-	1,188,144
TOTAL LIABILITIES	11,513	22,280	1,156,303	-	1,190,096
FUND BALANCES					
Assigned	1,156,303	-	-	-	1,156,303
Restricted	-	514,592	-	127	514,719
Committed	23,625	-	154,230	-	177,855
Unassigned	797,863	-	(222,579)	-	575,284
TOTAL FUND BALANCES	1,977,791	514,592	(68,349)	127	2,424,161
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,989,304	\$ 536,872	\$ 1,087,954	\$ 127	\$ 3,614,257

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

**BOROUGH OF EMMAUS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF ASSETS,
LIABILITIES AND FUND BALANCES TO THE STATEMENT OF NET POSITION –
MODIFIED CASH BASIS
DECEMBER 31, 2019**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,424,161

**Amounts Reported for Governmental Activities in the
Statement of Net Position - Modified Cash Basis are Different Because:**

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$16,802,230. 16,802,230

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Capital Lease Obligations	\$ (284,422)	
Notes Payable	<u>(4,125,643)</u>	<u>(4,410,065)</u>

**TOTAL NET POSITION -
GOVERNMENTAL ACTIVITIES** \$ 14,816,326

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

BOROUGH OF EMMAUS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Major Funds			Non-Major Funds	Total
	General	Special Revenue	Capital Projects	Debt Service	
REVENUES					
Taxes	\$ 6,747,289	\$ 880,185	\$ -	\$ -	\$ 7,627,474
Licenses and Permits	280,690	-	-	-	280,690
Fines and Forfeitures	50,567	-	-	-	50,567
Interest and Rents	342,555	16,558	12,511	-	371,624
Intergovernmental Revenues	900,878	392,476	53,550	-	1,346,904
Charges for Services	1,172,620	10,875	-	-	1,183,495
Other Revenues	227,088	9,054	-	-	236,142
TOTAL REVENUES	9,721,687	1,309,148	66,061	-	11,096,896
EXPENDITURES					
General Government	3,315,330	42,743	21,186	-	3,379,259
Public Safety	4,114,531	965,614	9,786	-	5,089,931
Public Works	1,055,121	184,842	5,740	-	1,245,703
Cultural and Recreation	556,439	-	22,825	-	579,264
Debt Service - Principal Retirement	-	-	-	704,805	704,805
Debt Service - Interest	-	-	-	106,061	106,061
Capital Outlay	-	-	392,754	-	392,754
TOTAL EXPENDITURES	9,041,421	1,193,199	452,291	810,866	11,497,777
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	680,266	115,949	(386,230)	(810,866)	(400,881)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	619,065	-	701,555	810,866	2,131,486
Operating Transfers Out	(1,136,324)	(585,051)	-	-	(1,721,375)
Total Other Financing Sources (Uses)	(517,259)	(585,051)	701,555	810,866	410,111
Net Change in Fund Balances	163,007	(469,102)	315,325	-	9,230
Fund Balances, January 1	1,814,784	983,694	(383,674)	127	2,414,931
FUND BALANCES, DECEMBER 31	\$ 1,977,791	\$ 514,592	\$ (68,349)	\$ 127	\$ 2,424,161

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

**BOROUGH OF EMMAUS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$ 9,230
 Amounts Reported for Governmental Activities in the Statement of Activities - Modified Cash Basis are Different Because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities - modified cash basis, the cost of those expenditures is not reported but treated as a capital asset on the statement of net position - modified cash basis	1,120,526
Repayments of capital leases is an expenditure in the governmental funds, but the repayment reduces capital lease liability in the statement of net position - modified cash basis	65,082
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets - modified cash basis	639,723
Proceeds from issuance of debt, including leases, is a current resource as a financing source in the governmental funds, but an increase in a liability on the statement of net assets - modified cash basis	<u>(349,504)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,485,057</u></u>

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

BOROUGH OF EMMAUS
STATEMENT OF NET POSITION – MODIFIED CASH BASIS – ALL PROPRIETARY FUNDS
DECEMBER 31, 2019

	Water Fund	Sewer Fund	Refuse Fund	Total Proprietary Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents - Unrestricted	\$ 241,543	\$ 89,584	\$ -	\$ 331,127
Due from Other Funds	-	199,494	-	199,494
Total Current Assets	<u>241,543</u>	<u>289,078</u>	<u>-</u>	<u>530,621</u>
Noncurrent Assets:				
Fixed Assets, Less Accumulated Depreciation	<u>1,377,496</u>	<u>1,155,461</u>	<u>-</u>	<u>2,532,957</u>
Total Noncurrent Assets	<u>1,377,496</u>	<u>1,155,461</u>	<u>-</u>	<u>2,532,957</u>
TOTAL ASSETS	<u>\$ 1,619,039</u>	<u>\$ 1,444,539</u>	<u>\$ -</u>	<u>\$ 3,063,578</u>
LIABILITIES				
Current Liabilities:				
Due to Other Funds	<u>\$ 236,223</u>	<u>\$ 425,875</u>	<u>\$ -</u>	<u>\$ 662,098</u>
Total Current Liabilities	<u>236,223</u>	<u>425,875</u>	<u>-</u>	<u>662,098</u>
TOTAL LIABILITIES	<u>236,223</u>	<u>425,875</u>	<u>-</u>	<u>662,098</u>
NET POSITION				
Invested in Capital Assets	1,377,496	1,155,461	-	2,532,957
Unrestricted	<u>5,320</u>	<u>(136,797)</u>	<u>-</u>	<u>(131,477)</u>
Total Net Position	<u>1,382,816</u>	<u>1,018,664</u>	<u>-</u>	<u>2,401,480</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,619,039</u>	<u>\$ 1,444,539</u>	<u>\$ -</u>	<u>\$ 3,063,578</u>

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

**BOROUGH OF EMMAUS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION – MODIFIED CASH BASIS – ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Water Fund	Sewer Fund	Refuse Fund	Total Proprietary Funds
OPERATING REVENUES:				
Charges for Services	\$ 1,041,656	\$ 1,371,967	\$ 1,522,812	\$ 3,936,435
Intergovernmental Revenues	-	260,000	-	260,000
Total Operating Revenues	<u>1,041,656</u>	<u>1,631,967</u>	<u>1,522,812</u>	<u>4,196,435</u>
OPERATING EXPENSES:				
Personnel	357,999	312,864	22,857	693,720
Supplies	24,718	21,522	-	46,240
Professional Services	6,702	127,572	-	134,274
Employee Benefits	261,777	242,187	-	503,964
Insurance	31,277	31,277	-	62,554
Repairs and Maintenance	243,217	70,450	-	313,667
Disposal System	90,031	2,297	-	92,328
Contractual Services	-	468,229	880,890	1,349,119
Depreciation and Amortization	84,401	106,634	-	191,035
Total Operating Expenses	<u>1,100,122</u>	<u>1,383,032</u>	<u>903,747</u>	<u>3,386,901</u>
OPERATING INCOME (LOSS)	<u>(58,466)</u>	<u>248,935</u>	<u>619,065</u>	<u>809,534</u>
NON-OPERATING REVENUES:				
Interest Revenue	3,056	4,635	-	7,691
Total Non-operating Revenues	<u>3,056</u>	<u>4,635</u>	<u>-</u>	<u>7,691</u>
Income (Loss) Before Transfers	(55,410)	253,570	619,065	817,225
Transfers Out	(51,212)	(113,302)	(619,065)	(783,579)
Change in Net Position	(106,622)	140,268	-	33,646
Total Net Position - January 1	<u>1,489,438</u>	<u>878,396</u>	<u>-</u>	<u>2,367,834</u>
TOTAL NET POSITION - December 31	<u>\$ 1,382,816</u>	<u>\$ 1,018,664</u>	<u>\$ -</u>	<u>\$ 2,401,480</u>

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

BOROUGH OF EMMAUS
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS –
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Water Fund	Sewer Fund	Refuse Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 1,041,656	\$ 1,371,967	\$ 1,522,812	\$ 3,936,435
Cash Payment to Suppliers for Goods and Services	(395,945)	(721,347)	(880,890)	(1,998,182)
Cash Payments to Employees for Services	(619,776)	(555,051)	(22,857)	(1,197,684)
Other Operating Receipts	-	260,000	-	260,000
Net Cash Provided by Operating Activities	<u>25,935</u>	<u>355,569</u>	<u>619,065</u>	<u>1,000,569</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Transfers Out	(51,212)	(113,302)	(619,065)	(783,579)
Borrowings/Repayments Under Interfund Loan Agreements	-	400,000	-	400,000
Net Cash Provided (Used) from Noncapital Financing Activities	<u>(51,212)</u>	<u>286,698</u>	<u>(619,065)</u>	<u>(383,579)</u>
CASH FLOWS FROM CAPITAL ACTIVITIES:				
Acquisition of Capital Assets	-	(872,335)	-	(872,335)
Net Cash Used by Capital Activities	<u>-</u>	<u>(872,335)</u>	<u>-</u>	<u>(872,335)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Received	3,056	4,635	-	7,691
Net Cash Provided from Investing Activities	<u>3,056</u>	<u>4,635</u>	<u>-</u>	<u>7,691</u>
Net Decrease in Cash and Cash Equivalents	(22,221)	(225,433)	-	(247,654)
Cash and Cash Equivalents, January 1	<u>263,764</u>	<u>315,017</u>	<u>-</u>	<u>578,781</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 241,543</u>	<u>\$ 89,584</u>	<u>\$ -</u>	<u>\$ 331,127</u>
Reconciliation of Operating Income to Net Cash Provided Operating Activities				
Operating Income (Loss)	\$ (58,466)	\$ 248,935	\$ 619,065	\$ 809,534
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	84,401	106,634	-	191,035
Total Adjustments	<u>84,401</u>	<u>106,634</u>	<u>-</u>	<u>191,035</u>
Net Cash Provided by Operating Activities	<u>\$ 25,935</u>	<u>\$ 355,569</u>	<u>\$ 619,065</u>	<u>\$ 1,000,569</u>

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

**BOROUGH OF EMMAUS
STATEMENT OF NET POSITION – MODIFIED CASH BASIS –
ALL FIDUCIARY FUNDS
DECEMBER 31, 2019**

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Cash Equivalents - Restricted	\$ -	\$ 197,516
Investments - at Fair Value		
Cash and Sweep Balances	467,705	-
Common Stock	10,348,882	-
Fixed Income	6,214,555	-
Accrued Income	545	-
	<u> </u>	<u> </u>
Total Assets	<u>\$ 17,031,687</u>	<u>\$ 197,516</u>
LIABILITIES:		
Due to Depositors	<u>\$ -</u>	<u>\$ 197,516</u>
	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>197,516</u>
NET POSITION:		
Restricted	<u>17,031,687</u>	<u>-</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Position	<u>\$ 17,031,687</u>	<u>\$ 197,516</u>

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

BOROUGH OF EMMAUS
STATEMENT OF CHANGES IN NET POSITION – MODIFIED CASH BASIS –
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Pension Trust Funds	Agency Funds
ADDITIONS:		
Contributions:		
Employer	\$ 996,702	\$ -
Plan Members	135,627	-
Total Contributions	<u>1,132,329</u>	<u>-</u>
Investment Earnings:		
Net Realized and Unrealized Gains	2,277,699	-
Interest and Dividends	394,729	-
Less: Investment Expenses	<u>(58,440)</u>	<u>-</u>
Total Investment Earnings	<u>2,613,988</u>	<u>-</u>
Miscellaneous Income	<u>11,318</u>	<u>-</u>
Total Additions	<u>3,757,635</u>	<u>-</u>
DEDUCTIONS:		
Administration	4,175	-
Benefit Payments	757,959	-
Other	<u>119,429</u>	<u>-</u>
Total Deductions	<u>881,563</u>	<u>-</u>
NET INCREASE	2,876,072	-
NET POSITION:		
Net Position, January 1	<u>14,155,615</u>	<u>-</u>
Net Position, December 31	<u>\$ 17,031,687</u>	<u>\$ -</u>

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

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

1. Entity

The Borough of Emmaus (the "Borough") was incorporated in 1859 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania ("Commonwealth").

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 the Borough as a reporting entity, management has addressed all potential component units for which the Borough may or may not be financially accountable, and as such, be includable within the Borough's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14 and No. 39, the Borough is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the Borough. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the Borough.

2. Summary of Significant Accounting Policies

The financial statements of the Borough of Emmaus have been prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) and is described more fully under Basis of Accounting and Measurement Focus. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

The accounts of the Borough are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, expenditures, or expenses, and other financing sources and uses. These various funds are summarized by type in the financial statements. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Borough's basic financial statements consist of government-wide statements, including a statement of net position – modified cash basis and a statement of activities – modified cash basis, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Borough as a whole. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately in the government-wide financial statements from business-type activities which rely, to a significant extent on fees and charges for support.

The statement of net position – modified cash basis presents the financial condition of the governmental and business-type activity of the Borough at fiscal year-end. The statement of activities – modified cash basis presents a comparison between direct expenses and program revenues for the business-type activity of the Borough and for each function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the Borough.

Proprietary 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 Borough's enterprise fund are service charges for water and sewer. Operating expenses for the Borough's enterprise funds include treatment and collection costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting

For financial reporting purposes, the Borough's funds have been grouped by fund type and are presented in this report in the following manner:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Borough are financed. The acquisition, use and balances of the Borough's expendable financial resources and the related liabilities are accounted for through the following governmental funds:

- ***General Fund (Major Fund)*** - is used to account for all financial transactions applicable to the general operations of the Borough except for those required to be accounted for in another fund.
- ***Special Revenue Funds (Major Funds)*** - are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The following are special revenue fund types:

State Liquid Fuels Fund - is utilized to account for the financial activity of the Borough's motor vehicle fuel tax allocation from the Commonwealth of Pennsylvania.

Fire Protection Fund - is utilized to account for the financial activity of the Borough's fire tax revenue and its related expenditures.

- ***Capital Projects Fund (Major Fund)*** - are used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- ***Debt Service Fund*** - is used to account for the accumulation of resources for, and the payment of, principal and interest on general obligation debt supported by the full faith and credit of the Borough.

Proprietary Fund Types

Proprietary funds are used to account for the Borough's ongoing activities that are similar to those often found in the private sector. The measurement focus is based upon the determination of net income. The Borough has three types of proprietary fund - the Enterprise Fund.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Proprietary Fund Types (Continued)

- ***Enterprise Fund*** - is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income are appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Borough has one Enterprise Fund described below.

Water Fund - is used to account for all costs incurred in the collection, treatment and distribution of water for consumption and is operated in a manner similar to a private business enterprise to be self-supporting

Sewer Fund - is used to account for the operation and maintenance of the sanitary sewage treatment plant and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

Refuse Fund - is used to account for the administration of the collection and disposal of municipal waste and recycling materials in the Borough and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following are the Borough's fiduciary fund types:

- ***Pension Trust Funds*** - are used to account for pension benefits for employees. The principal revenue sources for these funds are state aid, employer and employee contributions, and investment earnings. The Borough of Emmaus has two pension trust funds as described below:

Uniformed Pension Fund - is used to account for pension benefits for police officers. The principal revenue sources for this fund are employer and employee contributions.

Non-Uniform Pension Fund - is used to account for pension benefits for Borough employees. The principal revenue source for this fund is employer and employee contributions.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

- **Agency Funds** - are used to account for funds held in escrow for other parties. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting and Management Focus

Basis of Accounting

Basis of accounting refers to the timing of recognition of revenues and expenditures or expenses in the financial statements regardless of the measurement focus. The modified cash basis of accounting is followed for all governmental, proprietary and fiduciary funds of the Borough. The modified cash basis differs from GAAP in that certain revenues and the related assets are recognized when received rather than when earned and certain expenditures or expenses are recognized when paid rather than when a liability is incurred. Modifications to the cash basis of accounting include: fixed assets are capitalized and depreciated over their economic useful lives, the recording of payroll withholdings when withheld from employees' pay and the recording of investments held (in the Pension Trust Funds) as assets. In addition, net unrealized gains and losses on investments are recorded as a result of changes in the fair value of investments, not when the investments are sold. The Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Governmental Funds presents the results of the Borough's activities; it does not purport to present the net income or loss for the period.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are accounted for on a spending or "financial flow" measurement focus. This means the Borough has elected to report on a modified cash basis while reporting long-term indebtedness in the Debt Service Fund. Governmental fund-type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary funds and similar discretely presented component units are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with this activity are included on their statements of assets, liabilities, and net position. The reported fund equity is segregated into contributed capital and net position- modified cash basis. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in equity.

The Pension Trust Fund uses "income determination" as its measurement focus. Plan member contributions and employer contributions (including the portion, if any, funded by State Aid) are recognized in the period in which contributions are paid. Benefits and refunds are recognized when paid in accordance with the terms of each plan.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Budgets and Non-GAAP Budgetary Basis of Accounting

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with the Borough Code and Borough procedures, at least thirty days prior to adoption, the Borough Manager submits to the Borough Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, public works and culture and recreation.
- Public hearings are conducted to obtain taxpayer comment.
- By December 31, the budget is legally enacted for all governmental funds through passage of an ordinance. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
- 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.
- All modifications, transfers and amendments must be approved by Borough Council.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, Fire Fund, State Liquid Fuels Fund and the Capital Projects Fund.
- The legally required and adopted budgets of the Borough are for the General Fund, Debt Service Fund, Fire Fund, State Liquid Fuels Fund and the Capital Projects Fund.
- Budgets for the General Fund, Debt Service Fund, Fire Fund, State Liquid Fuels Fund and the Capital Projects Fund are adopted on a cash basis of accounting discussed above.
- Borough Council may authorize supplemental appropriations during the year. No supplemental appropriations were made during fiscal 2019. Borough Council must approve all over expenditures of appropriations or transfers of appropriated amounts.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Budgets and Non-GAAP Budgetary Basis of Accounting (Continued)

The Statements of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual present comparisons of legally adopted budgets with actual data. The budget has been prepared on the modified cash basis, which is the same basis of accounting used to prepare the financial statements as described more fully in Note 2. The Borough Council approves by a motion the total appropriations in the budget. Fund Balance and any revisions to the budget also require approval by Borough Council. There were no amendments to the budget as presented in the current year.

Cash and Investments

Cash and cash equivalents on the Statement of Net Position – Modified Cash Basis are considered to be cash on hand, demand deposits, cash with fiscal agent and deposits in the Pennsylvania Local Government Investment Trust (PLGIT).

For the purpose of the proprietary funds, “Statement of Cash Flows – Modified Cash Basis,” cash and cash equivalents are considered to be cash on hand, demand deposits, cash with fiscal agent, all highly liquid investments with an original maturity of three months or less and deposits in the Pennsylvania Local Government Investment Trust (PLGIT).

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have any established market, if any, are reported at estimated fair value. Insurance holdings, if any, are valued at reported contract values.

Interfund Transactions

Certain inter-fund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Other inter-fund transactions are reported as transfers. Non-recurring or non-routine permanent transfers of net position are reported as residual transfers of net position. All other inter-fund transfers are reported as operating transfers.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Restricted Assets

Cash and investments have been restricted to the extent of escrows payable, pension reserves and specific uses.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Water and Sewer systems reported in the business-type activities are depreciated using the straight-line method over the estimated useful life of system components ranging from 7 to 50 years.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. 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 regulations of other governments. The Borough's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Transfers

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. Transfers to the pension funds are quasi-external transactions.

Management Estimates

The preparation of financial statements prepared with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. Summary of Significant Accounting Policies (Continued)

Government – Wide Fiduciary and Proprietary Fund Net Position

Net Position is divided into three components:

- Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted – consist of assets that are restricted by the Borough's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

Governmental Fund Balances

The fund balance of Governmental Fund Types and the Pension Trust Funds are classified in four separate categories. The categories, and their general meanings, are as follows:

- Restricted fund balance - indicates the portion of the fund balance that can only be spent for specific purposes because of constitutional provisions, legislation, or constraints that are externally imposed.
- Committed fund balance - indicates the portion of the fund balance that can only be used for specific purposes determined by formal action of the Council.
- Assigned fund balance - indicates the portion of the fund balance that has been appropriated for specific purposes by authorization of the Council.
- Unassigned fund balance - indicates the portion of the fund balance that is available for appropriation and expenditure, in future periods.

Deferred Outflows/Inflows 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 consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

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 and so will not be recognized as an inflow of resources (revenue) until then.

The Borough of Emmaus has not recorded any deferred outflows/inflows of resources because the Borough has elected to report its financial activities on the modified cash basis of accounting.

3. Cash and Investments

General

Section 1316 of the Pennsylvania Borough Code provides for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Commonwealth of Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The deposit and investment policy of the Borough adheres to the statutes of the Commonwealth. Deposits of the Borough, except for Pension Trust Fund deposits which are administered by trustees, are either maintained in demand deposits or are held in bank money market accounts. There were no deposit or investment transactions during the year that were in violation of either the Commonwealth's statutes or the policy of the Borough.

Cash (Cash on Hand and Bank Balances)

At December 31, 2019, the carrying amount of the Borough's bank deposits at two financial institutions (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$1,269,445 and the corresponding bank balances were \$1,344,232 of which \$252,714 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balances of \$1,091,518 were collateralized, as described below.

Under Act No. 72 of the 1972 Session of the Pennsylvania General Assembly (the "Act of 72"), financial institutions were granted the authority to secure the deposits of public bodies by pledging a pool of assets, as defined in the Act of 72, to cover all public funds deposited in excess of FDIC limits. The uninsured bank balances of the Borough in the amount of \$1,091,518 were collateralized by this pool of assets maintained by the Borough's depository institutions.

In addition, the Borough included in cash, amounts held on hand in petty cash. At December 31, 2019, the petty cash balance was \$300.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

3. Cash and Investments (Continued)

Cash Equivalents

As of December 31, 2019, the carrying amounts of deposits in the Pennsylvania Local Government Investment Trust ("PLGIT" or "Trust") (excluding those held in the Pension Trust Funds, but including Agency Funds) were \$1,222,280. The Borough maintains deposits in the PLGIT portfolio of the Trust. The assets in these portfolios are marked to market daily, there are stated limits on the weighted average maturity of the portfolios and the Trust seeks to maintain a net asset value of \$1.00 per share. Accordingly, the market value for the deposits in PLGIT are not materially different from the carrying amount. All deposits in PLGIT are insured or registered, or securities held by the Borough's or its agent in the Borough's name.

Investments

Under Section 1316 of the Pennsylvania Borough Code, the Borough is authorized to invest in United States Treasury Bills, short-term obligations of the U.S. Government or its agencies or instrumentalities, obligations of the U.S. Government or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania 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, shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for Borough funds listed above and certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured. Investments of pension trust funds are placed pursuant to guidelines established by the respective pension boards.

As of December 31, 2019, the Borough had the following investments:

	Maturities	Fair Value
<u>Investment - Pension Trust Funds</u>		
Cash and Sweep Balances		\$ 467,705
Common Stocks		10,348,882
Fixed Income	Dec. 2020	6,214,555
		\$ 17,031,142

Interest Rate Risk

The Borough has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

3. Cash and Investments (Continued)

Investments (Continued)

Credit Risk

The Borough has no investment policy that would limit its investment choices to certain credit ratings.

Concentration of Credit Risk

The Borough places limits on the amount the Borough may invest in any one issuer. Currently the Borough does not have any investments not included in the Pension Trust Funds.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in the possession of any outside party. The Borough has no investments subject to custodial credit risk.

4. Real Estate Taxes

Based upon assessed valuations provided by the County (\$825,350,000 in 2019), the Borough bills and collects its own property taxes. The schedule for property taxes levied for 2019 is as follows:

January 1	- levy date
April 1	- billing date
April 1 - May 31	- face payment period
June 1 – July 31	- 2% discount period
August 1 - December 31	- 10% penalty period
January 1	- lien date

The Borough continues to collect delinquent real estate taxes through December of the current year. At that time, all unpaid real estate taxes are turned over to the County of Lehigh Tax Claim Bureau for further collection. The 2019 municipal tax rate for all purposes was 6.7615 mils (\$6.7615 per \$1,000 of assessed valuation).

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

5. Inter-fund Receivables and Payables

Inter-fund receivable and payable balances as of December 31, 2019 as follows:

	Due From Other Funds	Due to Other Funds
<i>Governmental Activities</i>		
General Fund	\$ 1,195,917	\$ 9,561
Capital Projects Fund	442,663	1,156,303
Liquid Fuels Fund	12,168	22,280
 <i>Business Type Activities</i>		
Water Fund	-	236,223
Sewer Fund	199,494	425,875
	\$ 1,850,242	\$ 1,850,242

6. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2019, was as follows:

	Balance Jan. 1, 2019	Additions	Retirements	Balance Dec. 31, 2019
Governmental Activities:				
<i>Capital Assets not Being Depreciated:</i>				
Land, Building and Improvements	\$ 8,677,764	\$ 489,543	\$ -	\$ 9,167,307
Machinery and Equipment	5,547,628	607,489	-	6,155,117
Recreation	1,456,312	23,494	-	1,479,806
	\$ 15,681,704	\$ 1,120,526	\$ -	\$ 16,802,230

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

	Balance Jan. 1, 2019	Additions	Retirements	Balance Dec. 31, 2019
Business-Type Activities:				
<i>Capital Assets Being Depreciated</i>				
Water System	\$ 5,072,240	\$ -	\$ -	\$ 5,072,240
Sewer System	4,616,998	872,335	-	5,489,333
Total Capital Assets Being Depreciated	9,689,238	872,335	-	10,561,573
Less Accumulated Depreciation	(7,837,581)	(191,035)	-	(8,028,616)
Business-Type Capital Assets, Net	\$ 1,851,657	\$ 681,300	\$ -	\$ 2,532,957

Depreciation expense for the Water Fund and Sewer Fund was \$84,401 and \$106,634, respectively in 2019.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

7. Long-Term Debt

Changes in long-term obligations for the year ended December 31, 2019, are as follows:

	Balance Outstanding Jan. 1, 2019	Additions	Reductions	Balance Outstanding Dec. 31, 2019	Amounts Due Within One Year
<i>Governmental Activities:</i>					
<u>General Obligation - Series 2011:</u>					
10-year Term Loan Payable to Bank, fixed interest annual interest rate of 2.00%. Payable in monthly installments, matures November, 2026	\$ 83,920	\$ -	\$ (9,996)	\$ 73,924	\$ 10,198
<u>General Obligation - Series 2015:</u>					
11-year Term Loan Payable to Bank, variable annual interest rate with a floor of 2.12% and a cap of 2.95%. Payable in semi-annual installments, matures August, 2026	4,427,000	-	(517,000)	3,910,000	528,000
<u>Installment Loan:</u>					
3-Year Loan Payable to Institution, fixed annual interest rate of 1.92%. Payable in monthly installments, matured September, 2019	42,087	-	(42,087)	-	-
<u>Installment Loan:</u>					
4-Year Loan Payable to Institution, fixed annual interest rate of 4.68%. Payable in annual installments, matures April, 2020	23,956	-	(11,704)	12,252	12,252
<u>Installment Loan:</u>					
4-Year Loan Payable to Institution, fixed annual interest rate of 1.92%. Payable in monthly installments, matures February, 2020	88,847	-	(40,547)	48,300	41,333
<u>Installment Loan:</u>					
5-Year Loan Payable to Institution, fixed annual interest rate of 3.93%. Payable in monthly installments, matures October, 2023	99,556	-	(18,389)	81,167	19,134
	<u>\$ 4,765,366</u>	<u>\$ -</u>	<u>\$ (639,723)</u>	<u>\$ 4,125,643</u>	<u>\$ 610,917</u>

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

7. Long-Term Debt (Continued)

The annual debt service requirements to maturity for governmental-type general obligation notes and installment loans, including interest are as follows, as of December 31, 2019:

	Principal	Interest
During the year ended December 31,		
2020	\$ 610,917	\$ 88,605
2021	576,257	75,331
2022	582,281	62,898
2023	594,308	69,212
2024	585,046	51,572
2025-2029	1,176,834	51,319
Totals	\$ 4,125,643	\$ 398,937

8. 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' ("Non-Uniform") Pension Plan, covers full-time nonuniform employees of the Borough.

Non-Uniform Pension Plan

Plan Description for the Non-Uniform Employees of the Borough of Emmaus

The Pension Plan for the non-uniformed employees of the Borough of Emmaus is a single-employer defined benefit plan that covers all full-time non-uniformed 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 Non-Uniform Employees of the Borough of Emmaus

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

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Non-Uniform Pension Plan (Continued)

Participation

Any person employed on a full-time basis by the employer, excluding uniformed employees. Participants must be at least age 18, employed before age 58 and complete an authorization of payroll deductions for mandatory contributions.

Employee Contributions

Participants will contribute 2.7% of Compensation in 2019, increasing 0.1% per year up to 2.9% in 2021. Secretaries will contribute 3.0% in 2022.

Normal Retirement

Eligibility - Age 65 and completion of 5 Years of Service.

Benefit - 2.0% of Average Monthly Compensation multiplied by Years of Service.

Early Retirement

Eligibility - Age 55 and completion of 5 Years of Service.

Benefit - Accrued Benefit at date of actual retirement, reduced to reflect early commencement of payments. The reduction is 1/180 for each of the first 60 months and 1/360 for each additional month by which commencement precedes Normal Retirement Date.

Late Retirement

Eligibility - Employment beyond Normal Retirement.

Benefit - The Accrued Benefit as of the end of the prior year (or normal retirement date, if later) actuarially increased.

Disability Retirement

Eligibility - Total and permanent disablement that occurs prior to Normal Retirement Date and qualifies for Social Security disability benefits.

Benefit - Accrued Benefit at date of disablement reduced (as for early retirement, or actuarially reduced if disablement occurs more than 10 years before normal retirement date) for commencement at date of disablement.

Benefit Commencement Date - First day of calendar month following disablement and continuing for the duration of Disability prior to Normal Retirement date and life thereafter.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Non-Uniform Pension Plan (Continued)

Death Benefits

Before Early Retirement Eligibility - Refund of Accumulated Contributions is payable to the participant's beneficiary.

After Early Retirement Eligibility - Survivor's portion of the participant's Accrued Benefit as of the date of death, adjusted for the joint and 100% survivor option and early retirement (if applicable) is payable to the eligible spouse for life starting the first of the month following the participant's death.

Post-Retirement - None, except as provided by the form of payment in force at the time of death.

Termination of Employment / Vesting

Vesting Schedule - 100% after completion of 5 Years of Service.

Benefit - Non-vested participants receive a Refund of Employee Contributions. Vested participants may elect to receive the Accrued Benefit at date of termination payable monthly starting at Normal Retirement date in lieu of a Refund of Employee Contributions.

Benefit Commencement Date - Monthly vested benefit is payable starting at Normal Retirement date. Participant may elect to commence payments at Early Retirement date with the same reduction as Early Retirement.

Plan Membership at December 31, 2019

Inactive Members or Beneficiaries Currently Receiving Benefits	16
Inactive Members Entitled to but not yet Receiving Benefits	11
Active Members	37
Total Members	64

Net Pension Liability

The net pension liability was measured as of December 31, 2019, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Non-Uniform Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Changes in Net Pension Liability

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2018	\$ 9,201,899	\$ 7,013,929	\$ 2,187,970
Changes for the year:			
Service Cost	276,969	-	276,969
Interest Cost	677,895	-	677,895
Changes in Benefit Terms	-	-	-
Changes for Experience	(295,711)	-	(295,711)
Changes of Assumptions	-	-	-
Contributions - Employer	-	507,193	(507,193)
Contributions - Member	-	63,497	(63,497)
Net Investment Income	-	1,339,069	(1,339,069)
Benefit Payments	(294,433)	(294,433)	-
Administrative Expense	-	(30,937)	30,937
Other Changes	-	-	-
Net Changes	<u>364,720</u>	<u>1,584,389</u>	<u>(1,219,669)</u>
Balance at December 31, 2019	<u>\$ 9,566,619</u>	<u>\$ 8,598,318</u>	<u>\$ 968,301</u>

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.50%, 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:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 2,051,557	\$ 968,301	\$ 34,579

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Non-Uniform Pension Plan (Continued)

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

	2019
Service Cost	\$ 276,969
Interest on the Total Pension Liability	677,895
Changes in Benefit Terms	-
Difference between Expected and Actual Experience	(103,869)
Changes of Assumptions	-
Member Contributions	(63,497)
Projected Earnings on Pension Plan Investments	(525,656)
Difference between Projected and Actual Earnings on Investments	18,899
Pension Plan Administrative Expense	30,937
Other Changes in Fiduciary Net Position	-
Pension Expense	<u>\$ 311,678</u>

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended December 31, 2019, the Borough recognized pension expense of \$293,225. At December 31, 2019, the Borough 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>
Differences Between Expected and Actual Experience	\$ -	\$ 521,608
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension plan Investments	<u>561,838</u>	<u>824,355</u>
Total	<u>\$ 561,838</u>	<u>\$ 1,345,963</u>

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Non-Uniform Pension Plan (Continued)

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

Years Ended December 31,	2020	\$	(167,016)
	2021		(165,155)
	2022		(79,272)
	2023		(266,550)
	2024		(60,315)
	Thereafter		(45,817)

Uniformed Pension Plan

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 2018 is 3.5%, increasing to 4.0% for 2019.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Uniformed Pension Plan (Continued)

Participation

Borough police officers begin participation in the plan on their full-time hire date.

Employee Contributions

Participants will contribute 5% of Compensation. Contributions will be reduced to 4.0% in 2019 and 4.5% in 2020.

Normal Retirement

Eligibility - Age 50 and completion of 25 Years of Service.

Benefit - 50% of Final Monthly Average Salary plus Service Increment, if any.

Disability Retirement

Eligibility - Total and permanent disablement that occurs in the line of duty.

Benefit - 50% of the Member's Salary at Time the Disability Was Incurred.

Death Benefits

Before Retirement Eligibility - Refund of Employee Contributions.

After Retirement Eligibility - A monthly benefit equal to 50% of the pension the participant was receiving or was entitled to receive on the day of the participant's death is payable to the Participant's spouse for life. If there is no spouse or the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18, or age 23 if attending college.

Deferred Retirement Option Plan (DROP)

Eligibility - Attainment of Normal Retirement Eligibility.

Participation - Participant selects effective date of DROP participation and date of DROP termination which may be no more than 3 years later.

Benefit - A monthly benefit is calculated in the same manner as Normal Retirement as of initial DROP participation date. During the DROP period, the monthly benefit is credited to a DROP account and credited with interest equal to the actual earnings on the DROP account but no less than 0.0% nor more than 4.5% annually. At final retirement, the participant receives the lump sum value of the DROP account and begins receiving a monthly pension.

Cost-of-Living Adjustment

Annually by the action of the governing body of the employer a cost of living adjustment may be granted according to the terms of Act 600.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Uniformed Pension Plan (Continued)

Termination of Employment / Vesting

Vesting Schedule - 100% after completion of 12 Years of Service.

Benefit - Non-vested participants receive a Refund of Employee Contributions. Vested participants may elect to receive the Accrued Benefit at date of termination payable monthly starting at Normal Retirement date in lieu of a Refund of Employee Contributions.

Plan Membership at December 31, 2019

Inactive Members or Beneficiaries Currently Receiving Benefits	20
Inactive Members Entitled to but not yet Receiving Benefits	0
Active Members	<u>18</u>
Total Members	<u><u>38</u></u>

Net Pension Liability

The net pension liability was measured as of December 31, 2019, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Uniformed Pension Plan (Continued)

Changes in the Net Pension Liability

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2018	\$ 10,125,851	\$ 7,220,968	\$ 2,904,883
Changes for the year:			
Service Cost	253,454	-	253,454
Interest Cost	764,070	-	764,070
Changes in Benefit Terms	-	-	-
Changes for Experience	61,278	-	61,278
Changes of Assumptions	-	-	-
Contributions - Employer	-	489,509	(489,509)
Contributions - Member	-	67,209	(67,209)
Net Investment Income	-	1,345,627	(1,345,627)
Benefit Payments	(515,278)	(515,278)	-
Administrative Expense	-	(31,928)	31,928
Other Changes	-	-	-
Net Changes	<u>563,524</u>	<u>1,355,139</u>	<u>(791,615)</u>
Balance at December 31, 2019	<u>\$ 10,689,375</u>	<u>\$ 8,576,107</u>	<u>\$ 2,113,268</u>

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.50%, 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:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 3,398,477	\$ 2,113,268	\$ 1,040,985

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Uniformed Pension Plan (Continued)

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

	2019
Service Cost	\$ 253,454
Interest on the Total Pension Liability	764,070
Changes in Benefit Terms	-
Difference between Expected and Actual Experience	15,018
Changes of Assumptions	-
Member Contributions	(67,209)
Projected Earnings on Pension Plan Investments	(532,829)
Difference between Projected and Actual Earnings on Investments	32,764
Pension Plan Administrative Expense	31,928
Other Changes in Fiduciary Net Position	-
Pension Expense	<u>\$ 497,196</u>

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended December 31, 2019, the Borough recognized pension expense of \$464,734. At December 31, 2019, the Borough 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>
Differences Between Expected and Actual Experience	\$ 69,804	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension plan Investments	<u>577,636</u>	<u>838,170</u>
Total	<u>\$ 647,440</u>	<u>\$ 838,170</u>

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. Defined Benefit Retirement Plans (Continued)

Uniformed Pension Plan (Continued)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources (Continued)

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

Years Ended December 31,		\$	
	2020		(49,891)
	2021		(48,033)
	2022		45,002
	2023		(148,021)
	2024		10,213
	Thereafter		-

9. 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.

10. Postemployment Benefits Other Than Pensions

Plan Description

The Borough provides post employment benefits coverage to Borough employees based on eligibility requirements set for each group of 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.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. Postemployment Benefits Other Than Pensions (Continued)

Police Department Employees

Eligibility

For retired Police officers hired before January 1, 2018, and their spouses or future spouses.

Normal Retirement Eligibility

Retiring after attaining age 50 and completing 25 years of service.

Service-Related Disability Retirement Eligibility

Total and complete disablement that occurs in the line of duty.

Covered Persons

Eligible retired police officer, spouse and dependents.

Benefits

The Borough shall pay 100% of health insurance premiums including medical, Rx, dental and vision as well as reimburse deductibles for the retiree and his/her family until the death of the retiree. Surviving spouses will continue to receive 100% Borough paid health insurance until the spouse's death. Participants on the Senior 65 Plan receive reimbursement for Medicare Part B premiums and Medicare deductibles also.

Retiree Contributions

None.

Health Plans Available

Medical: Capital Blue Cross PPO with deductibles of \$500 for individual or \$1,000 for family. Upon reaching age 65, Capital Blue Cross Senior 65 Plan.

Dental: United Concordia dental plan 1.

Vision: Davis Vision Option A.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. Postemployment Benefits Other Than Pensions (Continued)

Non-Police Employees

Eligibility

For retired Secretaries and Non-Union staff- hired before January 1, 2011 having attained at least age 55 and satisfied the Rule of 80 at retirement/termination of employment. For all other union retirees -hired before January 1, 2016, having attained at least age 55 and satisfied the Rule of 80 at retirement/termination of employment. If hired after the dates shown above, no post-retirement health care benefits are offered.

The Rule of 80 is defined by adding the retiree's years of service with the Borough to the retiree's age. If the sum equals or is greater than 80, the Rule of 80 is satisfied.

Covered Persons

Eligible retired non-police employee and spouse

Benefits

The Borough shall provide health insurance including medical, Rx, dental and vision for the retiree and his/her spouse until the death of the retiree. Surviving spouses will continue to be provided health insurance until the spouse's death.

Retiree Contributions

If the eligible retiree satisfies the Rule of 80, the retiree will pay 10% of the monthly premium. If the eligible retiree satisfies the Rule of 85, the retiree will pay 5% of the monthly premium.

Health Plans Available

Medical: Capital Blue Cross PPO with deductibles of \$500 for individual or \$1,000 for family. Upon reaching age 65, Capital Blue Cross Senior 65 Plan.

Dental: United Concordia dental plan I.

Vision: Davis Vision Option A.

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions

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

A. Economic

1. Annual Trend Rates:

Year	Medical/ Rx	Dental & Vision
2017	8.50%	3.0%
2018	8.00%	3.0%
2019	7.50%	3.0%
2020	7.00%	3.0%
2021	6.50%	3.0%
2022	6.00%	3.0%
2023	5.50%	3.0%
2024	5.25%	3.0%
2025 and later	5.00%	3.0%

2. Inflation: 3.00%

3. Discount Rate: 3.75% per year
The discount rate was based on the index rate for 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

B. Demographic Assumptions

1. Mortality: RP-2000 Combined Healthy Mortality Table

2. Mortality Improvement Rates projected to improve with 100% of scale AA

3. Withdrawal: Table D-1

4. Disablement: Police: Rates interpolated from the 2010 Social Security Administration's projections of disability incidence (ultimate rates only)
Non-Police Employees: No Discount

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

11. Fund Balances

The fund balances have been categorized based on the relative strength of the spending constraints placed on the purpose for which the resources can be used, as follows:

	General Fund	Capital Reserve Fund	Fire Fund	Liquid Fuels Fund	Debt Service Fund	Pension Trust Funds	Agency Funds	Totals
Unassigned	\$ 797,863	\$ (222,579)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 575,284
Restricted	-	-	241,949	272,643	127	-	-	514,719
Committed	23,625	154,230	-	-	-	17,031,687	-	17,209,542
Assigned	<u>1,156,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,156,303</u>
Totals	<u>\$ 1,977,791</u>	<u>\$ (68,349)</u>	<u>\$ 241,949</u>	<u>\$ 272,643</u>	<u>\$ 127</u>	<u>\$ 17,031,687</u>	<u>\$ -</u>	<u>\$ 19,455,848</u>

12. Operating Leases

The Borough leases various pieces of equipment under multiple long-term lease agreements, expiring December 2024. Expenses incurred under the leases were \$6,780 for 2019. Future minimum lease payments are as follows:

Year ending December 31,	2020	\$ 6,780
	2021	6,780
	2022	4,855
	2023	4,680
	2024	<u>4,680</u>
Total Minimum Lease Payments		<u>\$ 27,775</u>

**BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

13. Capital Lease

The Borough leases equipment under various non-cancellable leases that are classified as capital leases expiring at various dates through June 2023. The lease agreements contain a bargain purchase option at the end of the lease terms.

Future minimum lease payments under the capital leases are as follows:

Year ending December 31,				
	2020	\$	83,352	
	2021		83,146	
	2022		81,336	
	2023		49,219	
Total minimum lease payments			297,053	
Less: amount representing interest			(12,631)	
Present value of minimum lease payments			284,422	
Less: Current Portion			(77,719)	
Capital Lease Obligation, Net			\$ 206,703	

14. Risk Management and Litigation

Risk Management

The Borough is exposed to various risk of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are provided for through insurance from private insurance companies. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably stated. In determining claims, events that might create claims, but for which none have been reported are considered. During the year ended December 31, 2019 and the two previous fiscal years, no settlements exceeded insurance coverage.

Litigation

In the normal course of operations, the Borough is involved in various civil disputes. Management and Borough solicitor estimate that the amount of actual potential claims against the Borough as of December 31, 2019, will not materially affect the financial condition of the Borough.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

15. Commitments and Contingencies

Federal and State Grants

The Borough receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Borough's management, such disallowances, if any, will not be significant to the Borough's basic purpose financial statements.

Compensated Absences

The Borough of Emmaus has not accrued compensated absences because the Borough has elected to report its financial activities on the modified cash basis of accounting. However, employees of the Borough are entitled to paid vacation and sick days, depending on their length of service.

Insurance

The Borough is exposed to various risks of loss, including workers' compensation; property, casualty and public official liability; employee benefit administration; employment practice liability; and general liability claims. During the past four calendar years, there have not been any settlements that exceeded insurance coverage. The Borough is contingently liable to the extent any potential future judgment exceeds available insurance coverage.

16. Deficit Fund Balances

The Capital Projects Fund had a deficit fund balance at December 31, 2019.

The General Fund's General Government budget category had expenditures in excess of appropriations for the year ended December 31, 2019.

17. Commitments to Related Party

The Borough of Emmaus has entered into an agreement to guarantee the Borough of Emmaus Fire Department's 2011 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.

BOROUGH OF EMMAUS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

18. Subsequent Events

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through _____, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Borough, COVID-19 may impact various parts of its 2020 operations and financial results. The full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

The sale of a 42,000 square-foot building and a stand-alone house at 33 East Minor Street and a parking lot at 10 East Minor Street closed on October 16, 2020 for a contract price of \$3,401,777.

REQUIRED SUPPLEMENTARY INFORMATION

**BOROUGH OF EMMAUS
GENERAL FUND - SCHEDULE OF REVENUES AND OTHER
FINANCING SOURCES – MODIFIED CASH BASIS - BUDGET COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES RECEIVED			
Taxes			
Real Estate	\$ 4,572,025	\$ 4,539,540	\$ 32,485
Real Estate Transfer	256,466	180,000	76,466
Per Capita	84,939	78,000	6,939
Earned Income	1,547,630	1,475,000	72,630
Mercantile	42,666	47,300	(4,634)
Local Services Tax	243,563	260,000	(16,437)
Total Taxes	<u>6,747,289</u>	<u>6,579,840</u>	<u>167,449</u>
Licenses and Permits			
Permits	85,123	107,300	(22,177)
TV Cable	186,206	200,000	(13,794)
Miscellaneous	9,361	1,270	8,091
Total Licenses and Permits	<u>280,690</u>	<u>308,570</u>	<u>(27,880)</u>
Fines and Forfeitures			
Ordinance Violations	10,991	10,000	991
Vehicle Code Violations	39,576	50,500	(10,924)
Total Fines and Forfeitures	<u>50,567</u>	<u>60,500</u>	<u>(9,933)</u>
Interest and Rents			
Interest	13,066	1,500	11,566
Rents	329,489	258,266	71,223
Total Interest and Rents	<u>342,555</u>	<u>259,766</u>	<u>82,789</u>
Intergovernmental Revenues			
Federal Funds	16,791	-	16,791
State Funds	872,591	564,513	308,078
PURTA Tax	6,496	7,000	(504)
Local Funds	5,000	-	5,000
Total Intergovernmental Revenues	<u>900,878</u>	<u>571,513</u>	<u>329,365</u>
Charges for Services			
Zoning Fees	35,672	24,000	11,672
Recreation Fees	190,159	202,500	(12,341)
Police Safety	49,138	12,500	36,638
Emergency Services	889,190	920,855	(31,665)
Miscellaneous	8,461	38,966	(30,505)
Total Charges for Services	<u>1,172,620</u>	<u>1,198,821</u>	<u>(26,201)</u>
Other Revenues			
Sale of Property	27,838	60,000	(32,162)
Refunds	190,801	128,268	62,533
Other	8,449	500,000	(491,551)
Total Other Revenues	<u>227,088</u>	<u>688,268</u>	<u>(461,180)</u>
Total Revenues Received	<u>\$ 9,721,687</u>	<u>\$ 9,667,278</u>	<u>\$ 54,409</u>

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
GENERAL FUND - SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES – MODIFIED CASH BASIS - BUDGET COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES PAID			
General Government			
Legislative	\$ 21,877	\$ 22,235	\$ 358
Administrative and Executive	2,771,092	2,931,588	160,496
Financial Administration	64,741	64,620	(121)
Planning and Zoning	66,544	25,000	(41,544)
Legal	59,282	66,000	6,718
Tax Collection	70,534	62,778	(7,756)
Insurance	<u>261,260</u>	<u>247,263</u>	<u>(13,997)</u>
Total General Government	<u>3,315,330</u>	<u>3,419,484</u>	<u>104,154</u>
Public Safety			
Police Protection	2,941,568	2,939,037	(2,531)
Protective Inspection and Code Enforcement	220,468	232,752	12,284
Fire Protection	<u>952,495</u>	<u>986,925</u>	<u>34,430</u>
Total Public Safety	<u>4,114,531</u>	<u>4,158,714</u>	<u>44,183</u>
Public Works - Highways and Streets			
Street Maintenance	1,244	3,900	2,656
Repairs and Maintenance	86,217	6,440	(79,777)
Weed Control	533	500	(33)
General Services	<u>967,127</u>	<u>1,003,278</u>	<u>36,151</u>
Total Public Works - Highways and Streets	<u>1,055,121</u>	<u>1,014,118</u>	<u>(41,003)</u>
Culture and Recreation			
Playground and Parks	441,439	438,554	(2,885)
Library	<u>115,000</u>	<u>120,755</u>	<u>-</u>
Total Culture and Recreation	<u>556,439</u>	<u>559,309</u>	<u>(2,885)</u>
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures Paid	<u>9,041,421</u>	<u>9,151,625</u>	<u>104,449</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	680,266	515,653	158,858
Other Financing Sources (Uses)			
Transfers In	619,065	-	619,065
Transfers Out	<u>(1,136,324)</u>	<u>970,893</u>	<u>(2,107,217)</u>
Total Other Financing Sources (Uses), Net	<u>(517,259)</u>	<u>970,893</u>	<u>(1,488,152)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	163,007	1,486,546	(1,329,294)
FUND BALANCE - JANUARY 1, 2019	<u>1,814,784</u>	<u>1,814,784</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2019	<u>\$ 1,977,791</u>	<u>\$ 3,301,330</u>	<u>\$ (1,329,294)</u>

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
SCHEDULE OF BOROUGH CONTRIBUTIONS -
NON-UNIFORM PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

Year	Actuarially Determined Contributions	Contributions From Employer	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a % of Payroll
2013	\$ 429,647	\$ 429,647	-	\$ 1,825,308	23.5%
2014	416,684	416,684	-	1,889,386	22.1%
2015	456,903	456,903	-	1,926,185	23.7%
2016	458,214	458,214	-	2,035,626	22.5%
2017	473,193	473,194	(1)	2,146,008	22.0%
2018	498,032	498,032	-	2,304,212	21.6%
2019	507,193	507,193	-	2,534,860	20.0%

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS -
NON-UNIFORM PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

	2019
Total Pension Liability	
Service Cost	\$ 276,969
Interest	677,895
Changes of Benefit Terms	-
Changes for Experience	(295,711)
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member Contributions	(294,433)
Net Change in Total Pension Liability	364,720
Total Pension Liability - Beginning	9,201,899
 Total Pension Liability - Ending	 \$ 9,566,619
 Plan Fiduciary Net Pension	
Contributions - Employer	\$ 507,193
Contributions - Member	63,497
Net Investment Income	1,339,069
Benefit Payments, Including Refunds of Member Contributions	(294,433)
Administrative Expense	(30,937)
Net Change in Plan Fiduciary Net Position	1,584,389
Plan Net Position - Beginning	7,013,929
 Plan Net Position - Ending	 \$ 8,598,318
 Municipality's Net Pension Liability	 \$ 968,301
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 89.9%
 Covered Employee Payroll	 \$ 2,534,860
 Municipality's Net Pension Liability as a Percentage	 38.2%

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES –
NON-UNIFORM PENSION PLAN
DECEMBER 31, 2019**

Actuarial Assumptions

The total pension liability in the January 1, 2019 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

A. Economic

- | | |
|-----------------------|-----------------|
| 1. Interest Rate: | 7.50% per year. |
| 2. Salary Projection: | 5.00% per year. |
| 3. Inflation: | 3.00% per year. |

B. Employee Characteristics

- | | |
|---------------------------|--|
| 1. Mortality: | RP-2000 Combined Healthy Mortality Table |
| 2. Mortality Improvement: | Rates projected with scale AA. |
| 3. Disablement: | None assumed. |
| 4. Withdrawal: | Table D-1. |
| 5. Marital Status: | 100% of participants are assumed to be married; all spouses are of the opposite sex. Female spouse assumed to be 3 years younger than male spouse. |

C. Retirement

- | | |
|------------------------------|--|
| 1. Valuation Retirement Age: | Normal Retirement Age, or attained age if currently past assumed retirement age. |
| 2. Benefit Form: | Life annuity. |

See independent auditor's report on required supplementary information.

**BOROUGH OF EMMAUS
SCHEDULE OF BOROUGH CONTRIBUTIONS -
UNIFORMED PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

Year	Actuarially Determined Contributions	Contributions From Employer	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a % of Payroll
2013	\$ 280,068	\$ 280,068	\$ -	\$ 1,467,795	19.1%
2014	291,002	291,002	-	1,519,452	19.2%
2015	339,337	339,337	-	1,570,657	21.6%
2016	336,321	336,321	-	1,617,394	20.8%
2017	393,274	393,274	-	1,742,491	22.6%
2018	544,414	549,031	(4,617)	1,692,403	32.4%
2019	489,509	489,509	-	1,792,558	27.3%

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS -
UNIFORMED PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

	2019
Total Pension Liability	
Service Cost	\$ 253,454
Interest	764,070
Changes of Benefit Terms	-
Changes for Experience	61,278
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member Contributions	(515,278)
Net Change in Total Pension Liability	563,524
Total Pension Liability - Beginning	10,125,851
Total Pension Liability - Ending	\$ 10,689,375
Plan Fiduciary Net Pension	
Contributions - Employer	\$ 489,509
Contributions - Member	67,209
Net Investment Income	1,345,627
Benefit Payments, Including Refunds of Member Contributions	(515,278)
Administrative Expense	(31,928)
Net Change in Plan Fiduciary Net Position	1,355,139
Plan Net Position - Beginning	7,220,968
Plan Net Position - Ending	\$ 8,576,107
Municipality's Net Pension Liability	\$ 2,113,268
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.2%
Covered Employee Payroll	\$ 1,792,558
Municipality's Net Pension Liability as a Percentage	117.9%

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on required supplementary information.

The accompanying notes to required supplementary schedules are an integral part of these schedules.

**BOROUGH OF EMMAUS
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES –
UNIFORMED PENSION PLAN
DECEMBER 31, 2019**

Actuarial Assumptions

The total pension liability in the January 1, 2019 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

A. Economic

- | | |
|-----------------------|-----------------|
| 1. Interest Rate: | 7.50% per year. |
| 2. Salary Projection: | 5.00% per year. |
| 3. Inflation: | 3.00% per year. |

B. Employee Characteristics

- | | |
|---------------------------|--|
| 1. Mortality: | RP-2000 Combined Healthy Mortality Table |
| 2. Mortality Improvement: | Rates projected with scale AA. |
| 3. Disablement: | None assumed. |
| 4. Withdrawal: | Table D-1. |
| 5. Marital Status: | 100% of participants are assumed to be married; all spouses are of the opposite sex. Female spouse assumed to be 3 years younger than male spouse. |
| 6. Type of Disability: | 100% assumed to be service-related. |

C. Retirement

- | | |
|-------------------------------|--|
| 1. Valuation Retirement Age: | The later of age 51 and 25 Years of Service, or attained age if currently past assumed retirement age. |
| 2. Benefit Form: | Joint and 50% survivor annuity. |
| 3. Cost of Living Adjustment: | No future Cost-of-Living Adjustments assumed. |
| 4. DROP Utilization: | No gains or losses on DROP assets assumed. |

See independent auditor's report on required supplementary information.

OTHER SUPPLEMENTARY INFORMATION

**BOROUGH OF EMMAUS
 COMBINING BALANCE SHEET – MODIFIED CASH BASIS –
 ALL SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2019**

	Fire Protection	State Liquid Fuels	Total
ASSETS			
Cash and Cash Equivalents	\$ 241,949	\$ 282,755	\$ 524,704
Due from Other Funds	-	12,168	12,168
Total Assets	<u>\$ 241,949</u>	<u>\$ 294,923</u>	<u>\$ 536,872</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to Other Funds	\$ -	\$ 22,280	\$ 22,280
Total Liabilities	-	22,280	22,280
Fund Balance			
Restricted	241,949	272,643	514,592
Total Liabilities and Fund Balances	<u>\$ 241,949</u>	<u>\$ 294,923</u>	<u>\$ 536,872</u>

See independent auditor's report on supplementary information.

**BOROUGH OF EMMAUS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – MODIFIED CASH BASIS –
ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Fire Protection	State Liquid Fuels	Total
REVENUES RECEIVED			
Taxes	\$ 880,185	\$ -	\$ 880,185
Intergovernmental Revenues	43,104	349,372	392,476
Charges for Services	10,875	-	10,875
Miscellaneous	9,054	-	9,054
Interest	3,883	12,675	16,558
Total Revenues Received	<u>947,101</u>	<u>362,047</u>	<u>1,309,148</u>
EXPENDITURES PAID			
General Government	42,743	-	42,743
Public Safety	965,614	-	965,614
Public Works - Highways and Streets	-	184,842	184,842
Total Expenditures Paid	<u>1,008,357</u>	<u>184,842</u>	<u>1,193,199</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	<u>(61,256)</u>	<u>177,205</u>	<u>115,949</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>(258,670)</u>	<u>(326,381)</u>	<u>(585,051)</u>
Total Other Financing Sources (Uses), Net	<u>(258,670)</u>	<u>(326,381)</u>	<u>(585,051)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	<u>(319,926)</u>	<u>(149,176)</u>	<u>(469,102)</u>
Fund Balances - January 1, 2019	<u>561,875</u>	<u>421,819</u>	<u>983,694</u>
Fund Balances - December 31, 2019	<u>\$ 241,949</u>	<u>\$ 272,643</u>	<u>\$ 514,592</u>

See independent auditor's report on supplementary information.

**BOROUGH OF EMMAUS
COMBINING STATEMENT OF NET POSITION – MODIFIED CASH BASIS –
ALL PENSION FUNDS
DECEMBER 31, 2019**

	Uniformed Pension	Non-Uniform Pension	Total
ASSETS:			
Investments - At Fair Value			
Cash and Sweep Balances	\$ 221,665	\$ 246,040	\$ 467,705
Common Stock	5,125,848	5,223,034	10,348,882
Fixed Income	3,084,390	3,130,165	6,214,555
Accrued Income	257	288	545
Total Assets	\$ 8,432,160	\$ 8,599,527	\$ 17,031,687
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Total Liabilities	-	-	-
NET POSITION:			
Restricted	8,432,160	8,599,527	17,031,687
Total Liabilities and Net Position	\$ 8,432,160	\$ 8,599,527	\$ 17,031,687

See independent auditor's report on supplementary information.

BOROUGH OF EMMAUS
COMBINING STATEMENT OF CHANGES IN NET POSITION – MODIFIED CASH BASIS –
ALL PENSION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Uniformed Pension	Non-Uniform Pension	Total
ADDITIONS:			
<i>Contributions:</i>			
Employer	\$ 489,509	\$ 507,193	\$ 996,702
Plan Members	69,765	65,862	135,627
Total Contributions	559,274	573,055	1,132,329
<i>Investment Earnings:</i>			
Net Realized and Unrealized Gains	1,141,924	1,135,775	2,277,699
Interest and Dividends	197,016	197,713	394,729
Less: Investment Expenses	(29,778)	(28,662)	(58,440)
Total Investment Earnings	1,309,162	1,304,826	2,613,988
Miscellaneous Income	5,737	5,581	11,318
Total Additions	1,874,173	1,883,462	3,757,635
DEDUCTIONS:			
Administration	1,900	2,275	4,175
Benefit Payments	464,734	293,225	757,959
Other	119,429	-	119,429
Total Deductions	586,063	295,500	881,563
Excess of Additions Over Deductions	1,288,110	1,587,962	2,876,072
NET POSITION			
Net Position, January 1, 2019	7,144,050	7,011,565	14,155,615
Net Position, December 31, 2019	\$ 8,432,160	\$ 8,599,527	\$ 17,031,687

See independent auditor's report on supplementary information.

**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**

Members of Borough Council
Borough of Emmaus
Emmaus, PA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Borough of Emmaus, which comprise the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Emmaus' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Emmaus' internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Emmaus' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

We did identify certain deficiencies in internal control that we consider to be significant deficiencies:

Adequacy of Bonding Insurance Coverage

During our audit, we noted the Borough of Emmaus carries bonding insurance only for the Director of Finance and Borough Manager. There is no insurance coverage for those employees involved with the handling of cash. Bonding coverage protects a Borough from a loss due to theft or embezzlement. We strongly recommend the Borough contact its insurance agent and consider obtaining bonding insurance. Adequate bonding coverage is considered to be a critical element of a strong system of internal controls.

Oversight of Real Estate Tax Collector

Currently, an elected tax collector handles the billing and collection of the Borough's real estate taxes. However, we feel the process is lacking a higher-level supervisory or review function typically performed by management. During our audit procedures, we noted monthly reports received from the tax collector did not contain any supervisory approval signatures. Also, supporting documentation of the individuals included in the monthly deposit were not attached to the monthly reports nor were they provided to us upon inquiry. Stronger documentation and review of the monthly reports would provide the needed higher-level accounting supervisory role consistently throughout the year. This function could help identify any errors in a timely manner.

Approval of Cash Disbursements

During our audit procedures, it was noted that there was no written documentation as evidence of the approval performed on invoices paid related to purchases made by the Fire Department and Public Works Department. These approvals are an integral part of the internal control structure and the lack of documentation that these processes took place weakens the system. We strongly recommend that each approval be documented with the initials or signature of the reviewer and the date on which the approval was performed.

Segregation of Duties: Cash Receipts

The employee responsible for handling and depositing of cash receipts also posts to the cash receipts and maintains the accounts receivable subsidiary ledger. Employees who have both custodial and record keeping responsibilities for the same asset create a significant internal control weakness. While we understand that a complete segregation of duties is impractical in a small office with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. The following procedures should be enacted to ensure efficient internal control:

- One employee should open the mail, make a control list of all receipts, and restrictively endorse all items received.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.
- Additionally, authenticated deposit slips and supporting documentation should be retained for each deposit made.

This practice will ensure that cash is safeguarded to a very high degree and serve to protect the Borough well into the future.

Views of Responsible Officials and Planned Corrective Actions

Recommendations are to be implemented in the 2020 fiscal year and the deficiencies will be fully corrected.

Compliance and Other Matters

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

Congbell, Rappold & Yucasita LLP

October 29, 2020