

FINANCIAL STATEMENTS

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BOROUGH OF EMMAUS

DECEMBER 31, 2010

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BOROUGH OF EMMAUS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Borough Council  
Borough of Emmaus, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Emmaus, Pennsylvania, as of and for the year ended December 31, 2010, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough of Emmaus, Pennsylvania's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the Borough of Emmaus prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable. In addition, no depreciation expense has been provided for the governmental activities capital assets. Management has also elected to omit the required Management Discussion and Analysis.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Emmaus, Pennsylvania, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis 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, 2010, and the respective changes in financial position - cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2011, on our consideration of the Borough of Emmaus, Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The pension information presented in the required supplementary information section on pages 35 to 37 are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Francis Anderson, Principal at [Signature], P.C.*

Emmaus, Pennsylvania  
August 23, 2011

BOROUGH OF EMMAUS  
STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2010

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,486,330	\$ 711,093	\$ 2,197,423
Internal balances	49,463	41,441	90,904
<u>Capital assets</u>			
Buildings, land & improvements	5,339,939	0	5,339,939
Machinery & equipment	3,959,057	0	3,959,057
Recreation	1,438,187	0	1,438,187
Water/sewer system, net	<u>0</u>	<u>2,077,241</u>	<u>2,077,241</u>
<b>Total Assets</b>	<u>12,272,976</u>	<u>2,829,775</u>	<u>15,102,751</u>
<u>LIABILITIES</u>			
Payroll taxes and related withholdings	1,233	0	1,233
Internal balances	41,441	49,463	90,904
Developer escrows	55,311	0	55,311
Notes & bonds payable	<u>4,869,998</u>	<u>0</u>	<u>4,869,998</u>
<b>Total Liabilities</b>	<u>4,967,983</u>	<u>49,463</u>	<u>5,017,446</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,867,185	2,077,241	7,944,426
Restricted for capital improvements	(23,602)	0	(23,602)
Unrestricted	<u>1,461,410</u>	<u>703,071</u>	<u>2,164,481</u>
<b>Total Net Assets</b>	<u>\$ 7,304,993</u> =====	<u>\$ 2,780,312</u> =====	<u>\$10,085,305</u> =====

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



BOROUGH OF EMMAUS  
STATEMENT OF ACTIVITIES - CASH BASIS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (544,494)	\$ 0	\$ (544,494)
(3,015,814)	0	(3,015,814)
(950,552)	0	(950,552)
(417,294)	0	(417,294)
(15,240)	0	(15,240)
(17,889)	0	(17,889)
<u>(230,656)</u>	<u>0</u>	<u>(230,656)</u>
<u>\$ (5,191,939)</u>	<u>\$ 0</u>	<u>\$ (5,191,939)</u>
\$ 0	\$ (3,340)	\$ (3,340)
<u>0</u>	<u>26,764</u>	<u>26,764</u>
<u>\$ 0</u>	<u>\$ 23,424</u>	<u>\$ 23,424</u>
<u>\$ (5,191,939)</u>	<u>\$ 23,424</u>	<u>\$ (5,168,515)</u>
3,365,774	0	3,365,774
1,644,378	0	1,644,378
158,653	0	158,653
64,722	0	64,722
18,475	1,246	19,721
192,768	0	192,768
(22,298)	0	(22,298)
<u>0</u>	<u>0</u>	<u>0</u>
<u>\$ 5,422,472</u>	<u>\$ 1,246</u>	<u>\$ 5,423,718</u>
230,533	24,670	255,203
<u>\$ 7,074,460</u>	<u>\$ 2,755,642</u>	<u>\$ 9,830,102</u>
<u>\$ 7,304,993</u>	<u>\$ 2,780,312</u>	<u>\$ 10,085,305</u>
=====	=====	=====

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

BOROUGH OF EMMAUS  
STATEMENT OF ASSETS, LIABILITIES  
AND FUND EQUITY - CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

<u>ASSETS</u>	<u>General</u>	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 502,847	\$ 7,056	\$ 976,427	\$	\$1,486,330
Due from other funds	<u>1,126,654</u>	<u>3,562</u>	<u>89,478</u>		<u>1,219,694</u>
Total Assets	<u>\$1,629,501</u>	<u>\$ 10,618</u>	<u>\$1,065,905</u>	<u>\$ 0</u>	<u>\$2,706,024</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Payroll taxes and related withholdings	\$ 1,233			\$	\$ 1,233
Due to other funds	110,536	11,629	1,089,507		1,211,672
Developer escrows	55,311				55,311
Other liabilities	<u>0</u>				<u>0</u>
Total Liabilities	<u>167,080</u>	<u>11,629</u>	<u>1,089,507</u>	<u>0</u>	<u>1,268,216</u>
<u>Fund Balances:</u>					
Reserved for capital improvements			(23,602)		(23,602)
Unreserved	<u>1,462,421</u>	<u>(1,011)</u>			<u>1,461,410</u>
Total Fund Balances	<u>1,462,421</u>	<u>(1,011)</u>	<u>(23,602)</u>	<u>0</u>	<u>1,437,808</u>
Total Liabilities and Fund Balances	<u>\$1,629,501</u>	<u>\$ 10,618</u>	<u>\$1,065,905</u>	<u>\$ 0</u>	<u>\$2,706,024</u>

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



**BOROUGH OF EMMAUS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Liquid Fuels	Capital Projects	Debt Service	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$5,010,152				\$ 5,010,152
Licenses and permits	158,653				158,653
Fines and forfeits	64,722				64,722
Interest and rents	13,305				13,305
Intergovernmental revenues	407,963	1,079	2,449	1,642	18,475
Charges for service	2,190,054	221,683			629,646
Miscellaneous revenues	192,768				2,190,054
Total Revenue	<u>8,037,617</u>	<u>222,762</u>	<u>20,849</u>	<u>1,642</u>	<u>8,282,870</u>
<b>EXPENDITURES</b>					
Current					
General government	638,649				638,649
Public safety	3,921,973	247			3,954,154
Public works	2,105,767				2,525,491
Culture and recreation	486,100	263,213			587,972
Community development	15,240				15,240
Debt service - principal retirement				3,902,763	3,902,763
Debt service - interest and fiscal charges	17,889			230,656	230,656
Miscellaneous expenses	0				0
Capital outlay	<u>7,185,618</u>	<u>263,460</u>	<u>216,664</u>	<u>4,133,419</u>	<u>216,664</u>
Total Expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>851,999</u>	<u>(40,698)</u>	<u>(527,720)</u>	<u>(4,131,777)</u>	<u>(3,848,196)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of general long-term debt				5,125,000	5,125,000
Operating transfers in			1,498,521	487,096	1,985,617
Operating transfers out	(505,298)			(1,480,319)	(1,985,617)
Total Other Financing Sources (Uses)	<u>(505,298)</u>	<u>-0-</u>	<u>1,498,521</u>	<u>4,131,777</u>	<u>5,125,000</u>
Net change in fund balances	346,701	(40,698)	970,801	0	1,276,804
<b>FUND BALANCES, JANUARY 1</b>	<u>1,115,720</u>	<u>39,687</u>	<u>(994,403)</u>	<u>0</u>	<u>161,004</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$1,462,421</u>	<u>\$ (1,011)</u>	<u>\$ (23,602)</u>	<u>\$ 0</u>	<u>\$ 1,437,808</u>

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

BOROUGH OF EMMAUS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Net Change in Fund Balances - Governmental Funds      \$ 1,276,804

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

Governmental funds report capital outlays as  
expenditures. However, in the statement of  
activities, the cost of those expenditures is  
not reported but treated as a capital asset  
on the statement of net assets. The capital  
outlay for the current year is \$216,664. 216,664

In the statement of activities, the gain/loss on  
the disposal of assets is reported, whereas in the  
governmental funds, the proceeds from the sale  
increase financial resources. The change in net  
assets differs from the change in fund balance by  
the cost of the disposed assets of \$(40,698), net  
of related accumulated depreciation of \$0. (40,698)

Issuance of long-term debt (e.g. bonds) provides  
current financial resources to governmental funds,  
while the repayment of the principal of long-term  
debt consumes the current financial resources of  
governmental funds.

However, neither transaction has an effect on net  
assets. Repayment of note and bond principal is  
an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the  
statement of net assets. The effect of this  
transaction in the statement is shown below:

Proceeds from issuance of bonds	(5,125,000)	
Repayment of note & bond principal	<u>3,902,763</u>	<u>(1,222,237)</u>

Change in Net Assets of Governmental Activities		\$ 230,533 =====
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The accompanying notes are an integral part of the financial  
statements.

BOROUGH OF EMMAUS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - CASH BASIS  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		<u>Final</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Amounts</u>	<u>Final Budget</u>
	\$	\$	\$	\$	<u>Positive</u>
					<u>(Negative)</u>
<b>REVENUES</b>					
Taxes	5,029,216	5,029,216	5,010,152	5,010,152	(19,064)
Licenses and permits	161,020	161,020	158,653	158,653	(2,367)
Fines and forfeits	69,000	69,000	64,722	64,722	(4,278)
Interest and rents	19,000	19,000	13,305	13,305	(5,695)
Intergovernmental revenues	752,250	752,250	407,963	407,963	(344,287)
Charges for service	2,174,725	2,174,725	2,190,054	2,190,054	15,329
Miscellaneous revenues	103,358	103,358	192,768	192,768	89,410
Total revenues	<u>8,308,569</u>	<u>8,308,569</u>	<u>8,037,617</u>	<u>8,037,617</u>	<u>(270,952)</u>
<b>EXPENDITURES</b>					
Current					
General government	685,463	685,463	638,649	638,649	46,814
Public safety	4,011,330	4,011,330	3,921,973	3,921,973	89,357
Public works	2,295,443	2,295,443	2,105,767	2,105,767	189,676
Culture and recreation	515,290	515,290	486,100	486,100	29,190
Community development	15,500	15,500	15,240	15,240	260
Micellaneous expenses	70,070	70,070	17,889	17,889	52,181
Capital outlay	0	0	0	0	0
Total expenditures	<u>7,593,096</u>	<u>7,593,096</u>	<u>7,185,618</u>	<u>7,185,618</u>	<u>407,478</u>
Excess (deficiency) of revenues over (under) expenditures	715,473	715,473	851,999	851,999	136,526
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	0	0	0	0	0
Operating transfers out	(765,473)	(765,473)	(505,298)	(505,298)	260,175
Net change in fund balances	(50,000)	(50,000)	346,701	346,701	396,701
Fund Balances, January 1	<u>50,000</u>	<u>50,000</u>	<u>1,115,720</u>	<u>1,115,720</u>	<u>1,065,720</u>
Fund Balances, December 31	\$ 0	\$ 0	\$ 1,462,421	\$ 1,462,421	\$ 1,462,421

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

BOROUGH OF EMMAUS  
STATEMENT OF NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b>ASSETS</b>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 587,188	\$ 123,905	\$ 711,093
Due from other funds	<u>41,441</u>	<u>249,254</u>	<u>290,695</u>
Total Current Assets	<u>628,629</u>	<u>373,159</u>	<u>1,001,788</u>
<u>Noncurrent Assets:</u>			
Water system, net of accumulated depreciation	1,668,201		1,668,201
Sewer system, net of accumulated depreciation	<u>                    </u>	<u>409,040</u>	<u>409,040</u>
Total Assets	<u>\$2,296,830</u> =====	<u>\$ 782,199</u> =====	<u>\$3,079,029</u> =====
<b>LIABILITIES</b>			
Due to other funds	<u>\$ 272,174</u>	<u>\$ 26,543</u>	<u>\$ 298,717</u>
Total Liabilities	<u>272,174</u>	<u>26,543</u>	<u>298,717</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,668,201	409,040	2,077,241
Unrestricted	<u>356,455</u>	<u>346,616</u>	<u>703,071</u>
Total Net Assets	<u>\$2,024,656</u> =====	<u>\$ 755,656</u> =====	<u>\$2,780,312</u> =====

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

BOROUGH OF EMMAUS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 934,439	\$ 997,632	\$1,932,071
Total Operating Revenues	<u>934,439</u>	<u>997,632</u>	<u>1,932,071</u>
<b>OPERATING EXPENSES</b>			
Personal services	291,719	242,769	534,488
Contractual services	370,078	630,102	1,000,180
Supplies	29,458	10,203	39,661
Materials	25,799	1,331	27,130
Utilities	108,298	4,262	112,560
Depreciation	<u>112,427</u>	<u>82,201</u>	<u>194,628</u>
Total Operating Expenses	<u>937,779</u>	<u>970,868</u>	<u>1,908,647</u>
Operating Income (Loss)	<u>(3,340)</u>	<u>26,764</u>	<u>23,424</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	<u>909</u>	<u>337</u>	<u>1,246</u>
Total Nonoperating Revenues	<u>909</u>	<u>337</u>	<u>1,246</u>
Net Income (Loss) Before			
Operating Transfers	(2,431)	27,101	24,670
Operating Transfers	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Assets	(2,431)	27,101	24,670
Net Assets, January 1	<u>2,027,087</u>	<u>728,555</u>	<u>2,755,642</u>
Net Assets, December 31	\$ 2,024,656 =====	\$ 755,656 =====	\$2,780,312 =====

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

BOROUGH OF EMMAUS  
STATEMENT OF CASH FLOWS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (3,340)	\$ 26,764	\$ 23,424
Item not requiring cash			
Depreciation	<u>112,427</u>	<u>82,201</u>	<u>194,628</u>
Subtotal	109,087	108,965	218,052
(Increase) decrease in due - from other funds	701	-0-	701
Increase (decrease) in due - to other funds	<u>1</u>	<u>3,529</u>	<u>3,530</u>
Net Cash Flows From Operating Activities	<u>109,789</u>	<u>112,494</u>	<u>222,283</u>
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES</b>			
Operating transfers	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Cash Flows From Noncapital Activities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Additions to water/sewer systems	<u>-0-</u>	<u>(19,662)</u>	<u>(19,662)</u>
Net Cash Flows From Financing Activities	<u>-0-</u>	<u>(19,662)</u>	<u>(19,662)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>909</u>	<u>337</u>	<u>1,246</u>
Net Cash Flows From Investing Activities	<u>909</u>	<u>337</u>	<u>1,246</u>
Net Increase in Cash and Cash Equivalents	110,698	93,169	203,867
Cash and Cash Equivalents, January 1	<u>476,490</u>	<u>30,736</u>	<u>507,226</u>
Cash and Cash Equivalents, December 31	\$ 587,188	\$ 123,905	\$ 711,093
	=====	=====	=====

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

BOROUGH OF EMMAUS  
STATEMENT OF NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
DECEMBER 31, 2010

	<u>Police Pension Plan (A)</u>	<u>Employee Pension Trust (A)</u>	<u>Total Fiduciary Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 142,587	\$ 74,995	\$ 217,582
Investments, at fair value:			
Mutual funds	<u>4,385,994</u>	<u>2,894,945</u>	<u>7,280,939</u>
Total investments	<u>4,385,994</u>	<u>2,894,945</u>	<u>7,280,939</u>
Accrued income	<u>1,802</u>	<u>1,191</u>	<u>2,993</u>
Total Assets	<u>4,530,383</u>	<u>2,971,131</u>	<u>7,501,514</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities:</u>			
None	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>Net Assets:</u>			
Held in trust for pension benefits	<u>\$4,530,383</u> =====	<u>\$2,971,131</u> =====	<u>\$7,501,514</u> =====

(A) A schedule of funding progress for each plan is presented on page 35.

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

BOROUGH OF EMMAUS  
STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
YEAR ENDED DECEMBER 31, 2010

	<u>Police Pension Plan</u>	<u>Employee Pension Trust</u>	<u>Total Fiduciary Funds</u>
<u>ADDITIONS:</u>			
Contributions,			
Employer	\$ 236,888	\$ 78,846	\$ 315,734
Employee	36,854	47,005	83,859
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Contributions	<u>273,742</u>	<u>125,851</u>	<u>399,593</u>
Investment income,			
Net appreciation in fair value of investments	407,741	279,346	687,087
Interest and dividends	<u>77,692</u>	<u>53,151</u>	<u>130,843</u>
	485,433	332,497	817,930
Less: investment expenses	<u>0</u>	<u>0</u>	<u>0</u>
Net Investment Income	<u>485,433</u>	<u>332,497</u>	<u>817,930</u>
Miscellaneous income	1,840	1,814	3,654
Total Additions	<u>761,015</u>	<u>460,162</u>	<u>1,221,177</u>
<u>DEDUCTIONS:</u>			
Benefits	284,265	145,753	430,018
Administrative expenses	10,562	15,074	25,636
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Deductions	<u>294,827</u>	<u>160,827</u>	<u>455,654</u>
Change in net assets	466,188	299,335	765,523
Net assets held in trust for pension benefits,			
Beginning of year	<u>4,064,195</u>	<u>2,671,796</u>	<u>6,735,991</u>
End of year	<u>\$4,530,383</u>	<u>\$2,971,131</u>	<u>\$7,501,514</u>
	=====	=====	=====

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and accompanying financial statements of the Borough of Emmaus (the Borough) do not conform to generally accepted accounting principles as applicable to governmental units since the Borough utilizes the cash basis of accounting, and has omitted the general infrastructure assets and the required management discussion and analysis. The Borough applies relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Principles Determining Scope of Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Measurement Focus

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

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

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

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus (Continued)

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

Basis of Accounting

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

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

Financial Statement Presentation

The Borough reports the following governmental fund types:

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

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

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

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

The Borough reports the following enterprise fund types:

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

The Borough also reports the following fiduciary fund types:

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

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Budgets and Budgetary Accounting

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

1) 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.

2) Public hearings are conducted to obtain taxpayer comment.

3) 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.

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

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

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

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

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

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

9) Borough Council may authorize supplemental appropriations during the year. No supplemental appropriations were made during fiscal 2010. Borough Council must approve all over expenditures of appropriations or transfers of appropriated amounts.

Cash and Investments

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

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable

As a result of using the cash basis method of accounting, \$163,028 of property taxes receivable as of December 31, 2010, have not been included as revenues.

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

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

Sewer and Water Systems in Service

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

Public Employee Retirement Systems

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

Transfers and Interfund Balances

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

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 1 Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, the Liquid Fuels Fund and the Capital Projects Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. There are no encumbrances as of December 31, 2010.

Reserves

The Borough records reserves to indicate that a portion of the fund balance is segregated for a specific future use. The following is a list of reserves used by the Borough and a description of each:

Reserved for Capital Improvements - An account used to segregate a portion of fund balance for resources restricted to capital projects and improvements.

Held in Trust for Pension Benefits - An account used to segregate a portion of fund balance for resources restricted to the payment of pension retirement benefits.

Total Columns on Combined Statements

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 2      Deposits and Investments

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

**DEPOSITS:**

As of December 31, 2010, the carrying amount of the Borough's deposits is \$2,415,005 and the bank balance is \$2,553,872. Of the bank balance, \$252,702 is covered by federal depository insurance.

The Borough requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation, \$2,301,170 at December 31, 2010, are collateralized using the pooled asset method to 100% of value as required by Pennsylvania Law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name, not in the Borough's name, and are considered uncollateralized for credit risk purposes.

**INVESTMENTS:**

Authorized types of investments for Borough funds are as follows:

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

Investments made by the Borough as of December 31, 2010, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 2 Deposits and Investments (Continued)

**INVESTMENTS: (Continued)**

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

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

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

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	Fair Value/ Carrying Amount	Market
Mutual Funds	\$ -0-	\$ -0-	\$7,280,939	\$7,280,939	\$7,280,939
	=====	=====	=====	=====	=====

NOTE 3 Capital Assets

The following is a summary of the changes in the capital asset activity for the year ended December 31, 2010:

	Balance December 31, <u>2009</u>	Increases (Decreases)	Balance December 31, <u>2010</u>
<u>Governmental activities:</u>			
Borough buildings, land and improvements	\$ 5,339,939	\$ -0-	\$ 5,339,939
Machinery and equipment	3,783,091	216,664	(40,698) 3,959,057
Recreation	<u>1,438,187</u>	<u>-0-</u>	<u>-0-</u> <u>1,438,187</u>
Governmental activities capital assets	\$10,561,217	\$ 216,664	\$(40,698) \$10,737,183
	=====	=====	=====

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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 3 Capital Assets (Continued)

The following is a summary of proprietary fund type property, plant, and equipment at December 31, 2010:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Enterprise Funds:</u>			
Sewer and Water Systems	\$4,476,788	\$4,179,420	\$8,656,208
Less accumulated depreciation	<u>2,808,587</u>	<u>3,770,380</u>	<u>6,578,967</u>
Sewer and Water Systems, Net of Accumulated Depreciation	\$1,668,201	\$ 409,040	\$2,077,241
	=====	=====	=====

Depreciation charged to operations for the Water Fund and the Sewer Fund was \$112,427 and \$82,201, respectively for the year ended December 31, 2010.

NOTE 4 Long-Term Debt

The following is a summary of general obligation notes and bonds payable for the year ended December 31, 2010:

<u>General Obligation Notes and Bonds</u>	<u>Notes Payable January 1,</u>	<u>Notes Issued</u>	<u>Notes Retired</u>	<u>Notes Payable December 31,</u>
Series of 2000 (A)	\$ 40,766	\$ -0-	\$ 6,971	\$ 33,795
Series of 2000 (B)	40,766	-0-	6,971	33,795
Series of 2004	3,529,000	-0-	3,529,000	-0-
Series of 2006	37,229	-0-	4,821	32,408
Series of 2010	-0-	5,125,000	355,000	4,770,000
Total	<u>\$3,647,761</u>	<u>\$5,125,000</u>	<u>\$3,902,763</u>	<u>\$4,869,998</u>
	=====	=====	=====	=====

General Obligation Note - Series of 2000(A)

The \$100,000 2000 general obligation note is due in installments through 2015 with interest at 2.0%. The principal outstanding at December 31, 2010, is \$33,795.

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 4 Long-Term Debt (Continued)

General Obligation Note - Series of 2000(A) (Continued)

The following is a summary of the future debt service requirements for the General Obligation Note Series of 2000:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,513	\$ 565	\$ 7,078
2012	7,243	479	7,722
2013	7,389	333	7,722
2014	7,538	184	7,722
2015	<u>5,112</u>	<u>36</u>	<u>5,148</u>
	<u>\$ 33,795</u>	<u>\$ 1,597</u>	<u>\$ 35,392</u>
	=====	=====	=====

General Obligation Note - Series of 2000(B)

The \$100,000, 2000 general obligation note is due in installments through 2015 with interest at 2.0%. The principal outstanding at December 31, 2010, is \$33,795.

The following is a summary of the future debt service requirements for the General Obligation Note Series of 2000:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,513	\$ 565	\$ 7,078
2012	7,243	479	7,722
2013	7,389	333	7,722
2014	7,538	184	7,722
2015	<u>5,112</u>	<u>36</u>	<u>5,148</u>
	<u>\$ 33,795</u>	<u>\$ 1,597</u>	<u>\$ 35,392</u>
	=====	=====	=====

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 4 Long-Term Debt (Continued)

General Obligation Note - Series of 2004

The \$5,032,000 2004 general obligation note is due in installments through 2018 with interest at 3.85%. The general obligation note was refunded on May 1, 2010, with the issuance of the General Obligation Bonds, Series of 2010.

General Obligation Note - Series of 2006

The \$50,000 2006 general obligation note is due in quarterly installments through 2017 with interest at 2.00%. The principal outstanding at December 31, 2010, is \$32,408.

The following is a summary of future debt service requirements for the General Obligation Note Series of 2006:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,918	\$ 611	\$ 5,529
2012	5,017	512	5,529
2013	5,119	410	5,529
2014	5,222	307	5,529
2015	5,327	202	5,529
2016	5,434	95	5,529
2017	1,371	11	1,382
	<u>\$ 32,408</u>	<u>\$ 2,148</u>	<u>\$ 34,556</u>
	=====	=====	=====

General Obligation Bonds - Series of 2010

The General Obligation Bonds, Series of 2010: serial bonds: date of issuance May 1, 2010; original amount \$5,125,000; interest rate varies from 2.0% to 4.0%. The Bonds are subject to redemption prior to maturity. The principal outstanding as of December 31, 2010 is \$4,770,000.

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 4 Long-Term Debt (Continued)

General Obligation Bonds - Series of 2010 (Continued)

The following is a summary of future debt service requirements for the General Obligation Bonds Series of 2010:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 375,000	\$ 140,620	\$ 515,620
2012	380,000	133,120	513,120
2013	390,000	125,520	515,520
2014	395,000	117,720	512,720
2015	420,000	101,920	521,920
2016	445,000	91,000	536,000
2017	455,000	78,985	533,985
2018	480,000	65,335	545,335
2019	495,000	49,975	544,975
2020	515,000	33,145	548,145
2021	420,000	15,120	435,120
	<u>\$4,770,000</u>	<u>\$ 952,460</u>	<u>\$5,722,460</u>
	=====	=====	=====

The following is a summary of the future debt service requirements for all General Obligation debt of the Borough:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 392,944	\$ 142,361	\$ 535,305
2012	399,503	134,590	534,093
2013	409,897	126,596	536,493
2014	415,298	118,395	533,693
2015	435,551	102,194	537,745
2016	450,434	91,095	541,529
2017	456,371	78,996	535,367
2018	480,000	65,335	545,335
2019	495,000	49,975	544,975
2020	515,000	33,145	548,145
2021	420,000	15,120	435,120
	<u>\$4,869,998</u>	<u>\$ 957,802</u>	<u>\$5,827,800</u>
	=====	=====	=====

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 5 Defined Benefit Pension Plans

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

Plan Description for the Uniformed Employees of the Borough of Emmaus

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

Funding Policy for the Uniformed Employees of the Borough of Emmaus

The Borough is required to contribute amounts necessary to fund the Plan, using the actuarial basis specified by the Borough of Emmaus. If an actuarial study shows the plan to have insufficient assets to fund plan benefits, member contributions may be required. Effective January 1, 2009, members are required to contribute a percentage of their compensation to the Plan to assist in the funding of the plan benefit provisions. The required contribution rate for 2010 is 3.1%.

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 5 Defined Benefit Pension Plans (Continued)

Plan Description for the Nonuniformed Employees of the Borough of Emmaus

The Pension Plan for the Nonuniformed Employees of the Borough of Emmaus is a single-employer defined benefit plan that covers all full-time nonuniformed employees of the Borough who have attained age 18. 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 12 years of credited service and participants become 100% vested upon the completion of 5 years of service. The Plan also provides early retirement, death and disability benefits. The authority under which the benefit provisions have been established, or may be amended, remains with the Council of the Borough of Emmaus. The Plan does not issue a stand-alone financial report.

Funding Policy for the Nonuniformed Employees of the Borough of Emmaus

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

**Annual Pension Cost and Net Pension Obligation**

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

	<u>Uniformed</u>	<u>Nonuniformed</u>
Annual required contribution	\$ 236,888	\$ 78,846
Interest on net pension obligation	-0-	-0-

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 5 Defined Benefit Pension Plans (Continued)

Adjustment to annual required contribution	-0-	-0-
Annual pension costs	236,888	78,846
Contributions made	<u>236,888</u>	<u>78,846</u>
Increase (decrease) in net pension obligation	-0-	-0-
Net pension obligation beginning of year	<u>-0-</u>	<u>-0-</u>
Net pension obligation end of year	\$ -0- =====	\$ -0- =====

**Annual Pension Cost and Net Pension Obligation**

The annual required contribution for the current year was determined as part of the January 1, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% and 7.00% investment rate of return for the uniform and nonuniformed plans respectively, and (b) projected salary increases of 6.00% and 5.00% per year for the uniform and nonuniformed plan, respectively. Both (a) and (b) for both plans include an inflation component for moderate cost-of-living increases. The assumptions did not include postretirement benefit increases for either plan. The actuarial value of assets for both plans was determined using market value as determined by the trustee. For the uniformed plan the unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis. The remaining amortization period at January 1, 2009, was 16 years. For the nonuniformed plan the unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis. The remaining amortization period at January 1, 2009, was 17 years.

**Three Year Trend Information**

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Uniformed Plan	12/31/08	\$ 204,622	100%	\$ 0
	12/31/09	226,273	100%	0
	12/31/10	236,888	100%	0
Nonuniformed Plan	12/31/08	\$ 68,879	100%	\$ 0
	12/31/09	78,633	100%	0
	12/31/10	78,846	100%	0

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 5 Defined Benefit Pension Plans (Continued)

**Plan Membership Information**

Membership in the pension plans as of January 1, 2009, (the most recent date available) is as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Active employees	19	37
Retirees and beneficiaries currently receiving benefits	16	19
Terminated employees entitled to benefits but not yet receiving them	<u>1</u>	<u>5</u>
Total	36 ===	61 ===

**Investments**

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

At December 31, 2010, the plans had the following investments in any one organization representing five percent or more of the Plans assets (other than investments issued or guaranteed by the U. S. Government) as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Federated Total Return Bond Fund	\$ 501,387	\$ 315,279
Met West Total Return CL Fund	314,703	210,304
MFS Value Fund	407,489	269,029
Thornburg International Value Fd	232,179	150,805
Wells Fargo Adv To Rt Bond Fund	832,130	545,523
Wells Fargo Adv Cap Growth Fund	405,647	265,934
Harbor International Fund		149,310

NOTE 6 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

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

NOTE 6      Deferred Compensation Plan (Continued)

trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose.

NOTE 7      Compensated Absences

Accumulated unpaid vacation and sick pay benefits accrue based on length of service and employment. There was no material unused accrued vacation or sick pay benefits as of December 31, 2010. Also, in accordance with the provisions of Governmental Accounting Standards Board, no liability is recorded for the non-vested accumulated rights to receive vacation and sick pay benefits.

NOTE 8      Litigation

Various claims and lawsuits are pending against the Borough. Defenses are being conducted by counsel for the Borough or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the Borough's financial position.

NOTE 9      Contingencies

The Borough participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2010, have not yet been conducted. Accordingly, the Borough's, compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Borough expects such amounts, if any, to be immaterial.

NOTE 10     Deficit Fund Balances

The Liquid Fuels Fund had a deficit fund balance at December 31, 2010.

The Capital Projects Fund had a deficit fund balance at December 31, 2010.

BOROUGH OF EMMAUS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

Note 11    Commitments to Related Parties

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

Note 12    Risk Management

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

Note 13    Subsequent Events

Subsequent events have been evaluated through August 23, 2011, which was the date financial statements were available to be issued.

BOROUGH OF EMMAUS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS  
DEFINED BENEFIT PENSION PLANS

(An Integral Part of the Financial Statements)

PENSION PLAN FOR THE UNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability-Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	3,809,332	4,548,518	739,186	83.7%	953,596	77.5%
1/1/2006	3,869,729	Information Not Available				
1/1/2007	4,228,340	5,087,839	859,499	83.1%	1,114,762	77.1%
1/1/2008	4,426,354	Information Not Available				
1/1/2009	4,301,893	5,669,829	1,367,936	75.9%	1,281,401	106.8%
1/1/2010		Information Not Available				

PENSION PLAN FOR THE NONUNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability-Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	2,713,752	2,662,870	(50,882)	101.9%	1,455,051	(3.5)%
1/1/2006	2,880,966	Information Not Available				
1/1/2007	3,143,694	2,970,688	(173,006)	105.8%	1,578,933	(11.0)%
1/1/2008	3,326,077	Information Not Available				
1/1/2009	2,907,285	4,491,651	1,584,366	64.7%	1,737,295	91.2%
1/1/2010		Information Not Available				

BOROUGH OF EMMAUS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
DEFINED BENEFIT PENSION PLANS  
(An Integral Part of the Financial Statements)

PENSION PLAN FOR THE UNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer</u>	<u>Percentage Contributed</u>
2005	\$ 153,820	\$ 153,820	100%
2006	\$ 169,919	\$ 169,919	100%
2007	\$ 183,536	\$ 183,536	100%
2008	\$ 204,622	\$ 204,622	100%
2009	\$ 226,273	\$ 226,273	100%
2010	\$ 236,888	\$ 236,888	100%

PENSION PLAN FOR THE NONUNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer</u>	<u>Percentage Contributed</u>
2005	\$ 87,846	\$ 87,846	100%
2006	\$ 70,232	\$ 70,232	100%
2007	\$ 71,881	\$ 71,881	100%
2008	\$ 68,879	\$ 68,879	100%
2009	\$ 78,633	\$ 78,633	100%
2010	\$ 78,846	\$ 78,846	100%

BOROUGH OF EMMAUS  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT PENSION PLANS  
(An Integral Part of the Financial Statements)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

PENSION PLAN FOR THE UNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

Valuation date:	1/1/09
Actuarial cost method:	Entry age Normal
Amortization method:	Level Dollar Closed
Remaining amortization period:	16 Years
Asset valuation method:	Market Value as determined by the trustee
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	6.00%
Includes inflation	Moderate cost of living

PENSION PLAN FOR THE NONUNIFORMED EMPLOYEES OF THE BOROUGH OF EMMAUS

Valuation date:	1/1/09
Actuarial cost method:	Entry age Normal
Amortization method:	Level Dollar Closed
Remaining amortization period:	17 Years
Asset valuation method:	Market Value as determined by the trustee
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Includes inflation	Moderate cost of living

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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

Borough Council  
Borough of Emmaus, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Emmaus, Pennsylvania, as of and for the year ended December 31, 2010, which collectively comprise the Borough of Emmaus, Pennsylvania's, basic financial statements and have issued our report thereon dated August 23, 2011. 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 Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Emmaus, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the Borough of Emmaus, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough of Emmaus, Pennsylvania's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, finding reference number 2010-1. 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Emmaus, Pennsylvania's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of the Borough of Emmaus, Pennsylvania, in a separate letter dated August 23, 2011.

This report is intended solely for the information and use of management, the Borough Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Trance, Anderson, Burt and Cappy, P.C.*

Emmaus, Pennsylvania  
August 23, 2011

BOROUGH OF EMMAUS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2010

FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 2010-1: Segregation of Duties

Condition: Due to the size of the office staff of the Borough, there lacks enough personnel to provide for proper segregation of accounting functions.

Criteria: Internal controls should be in place that provide for proper segregation of accounting functions.

Effect: Because of the inadequate segregation of accounting duties the possibility arises that there is more than a remote likelihood that a misstatement of the Borough's financial statements that is more than inconsequential will not be prevented or detected by the Borough's internal control.

Recommendation: We understand it is impractical to have an accounting staff large enough to provide for proper segregation of all duties and the additional cost of adding staff does not justify the benefits that would be provided. However, the Borough Manager and Borough Council need to monitor the accounting of the Borough and remain involved in the functions of the office to provide additional safeguards.

QUESTIONED COSTS

None