

FINANCIAL STATEMENTS

BOROUGH OF CATASAUQUA

DECEMBER 31, 2018

BOROUGH OF CATASAUQUA
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

To the Borough Council
Borough of Catasauqua, Pennsylvania

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Catasauqua, Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Catasauqua, Pennsylvania, as of December 31, 2018, and the respective changes in cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the Borough of Catasauqua, Pennsylvania's basic financial statements. The budgetary comparison information on page 44 and the historical pension information on pages 45 through 48, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2020, on our consideration of the Borough of Catasauqua, Pennsylvania's internal control over financial reporting and our tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Catasauqua, Pennsylvania's internal control over financial reporting and compliance.

Trance, Anclon, Basile and Company, P.C.

Emmaus, Pennsylvania
January 17, 2020

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,405,914	\$ 855,688	\$ 2,261,602
Internal balances	<u>1,743</u>	<u>(1,743)</u>	<u>0</u>
Total Current Assets	<u>1,407,657</u>	<u>853,945</u>	<u>2,261,602</u>
Capital assets:			
Buildings, land & improvements	12,830,405	0	12,830,405
Machinery & equipment	2,845,790	0	2,845,790
Water/sewer system, net	<u>0</u>	<u>5,467,775</u>	<u>5,467,775</u>
Total Capital Assets	<u>15,676,195</u>	<u>5,467,775</u>	<u>21,143,970</u>
Total Assets	<u>17,083,852</u>	<u>6,321,720</u>	<u>23,405,572</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Internal balances	50,245	(50,245)	0
Current portion of long-term debt	<u>374,489</u>	<u>254,452</u>	<u>628,941</u>
Total Current Liabilities	<u>424,734</u>	<u>204,207</u>	<u>628,941</u>
Noncurrent Liabilities:			
Escrow deposits	14,563	0	14,563
Other liabilities	3,074	0	3,074
Long-term debt, net of current portion	<u>10,860,276</u>	<u>4,448,259</u>	<u>15,308,535</u>
Total Noncurrent Liabilities	<u>10,877,913</u>	<u>4,448,259</u>	<u>15,326,172</u>
Total Liabilities	<u>11,302,647</u>	<u>4,652,466</u>	<u>15,955,113</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	4,441,430	765,064	5,206,494
Restricted	28,760	0	28,760
Unrestricted	<u>1,311,015</u>	<u>904,190</u>	<u>2,215,205</u>
Total Net Position	\$ 5,781,205 =====	\$ 1,669,254 =====	\$ 7,450,459 =====

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

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

			<u>Program Revenues</u>	
			Operating	Capital
	<u>Expenses</u>	<u>Charges for</u>	<u>Grants and</u>	<u>Grants and</u>
		<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>
<u>Governmental Activities</u>				
General government	\$ 612,559	\$ 7,000	\$ 13,138	\$ 0
Public safety	1,248,307	31,233	28,043	0
Public works	1,434,473	773,387	197,570	5,000
Culture and recreation	421,670	98,449	0	7,000
Community development	57,843	0	2,000	30,000
Insurance, employee benefits and miscellaneous	700,770	0	154,585	0
Interest & debt related expenses	320,279	0	0	0
Total Governmental Activities	\$ 4,795,901	\$ 910,069	\$ 395,336	\$ 42,000
<u>Business-type Activities</u>				
Sewer	\$ 1,451,254	\$1,023,687	\$ 0	\$ 0
Wastewater collection	832,450	874,747	0	0
Water	674,835	629,611	0	0
Total Business-type Activities	\$ 2,958,539	\$2,528,045	\$ 0	\$ 0
Total	\$ 7,754,440	\$3,438,114	\$ 395,336	\$ 42,000
	=====	=====	=====	=====

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

Total general revenues

Change in net position

Net position, January 1

Net position, December 31

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

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

Net (Expense) Revenue and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (592,421)	\$ 0	\$ (592,421)
(1,189,031)	0	(1,189,031)
(458,516)	0	(458,516)
(316,221)	0	(316,221)
(25,843)	0	(25,843)
(546,185)	0	(546,185)
<u>(320,279)</u>	<u>0</u>	<u>(320,279)</u>
<u>\$ (3,448,496)</u>	<u>\$ 0</u>	<u>\$ (3,448,496)</u>
\$ 0	\$ (427,567)	\$ (427,567)
0	42,297	42,297
<u>0</u>	<u>(45,224)</u>	<u>(45,224)</u>
<u>\$ 0</u>	<u>\$ (430,494)</u>	<u>\$ (430,494)</u>
<u>\$ (3,448,496)</u>	<u>\$ (430,494)</u>	<u>\$ (3,878,990)</u>
2,037,848	0	2,037,848
846,014	0	846,014
152,550	9,750	162,300
38,676	0	38,676
151,461	3,741	155,202
148,713	0	148,713
(69,338)	0	(69,338)
<u>37,268</u>	<u>(37,268)</u>	<u>0</u>
<u>\$ 3,343,192</u>	<u>\$ (23,777)</u>	<u>\$ 3,319,415</u>
(105,304)	(454,271)	(559,575)
<u>\$ 5,886,509</u>	<u>\$ 2,123,525</u>	<u>\$ 8,010,034</u>
\$ 5,781,205	\$ 1,669,254	\$ 7,450,459
=====	=====	=====

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

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

<u>ASSETS</u>	<u>General</u>	<u>Liquid Fuels</u>	<u>Community Development</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,154,668	\$ 248,760	\$ 2,486	\$	\$ 1,405,914
Due from other funds	<u>329,053</u>				<u>329,053</u>
Total Assets	\$ 1,483,721	\$ 248,760	\$ 2,486	\$ 0	\$ 1,734,967
	=====	=====	=====	=====	=====
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Payroll taxes withholdings	\$	\$	\$	\$	\$ 0
Due to other funds	152,809	220,000	4,746		377,555
Escrow deposits	14,563				14,563
Other liabilities	<u>3,074</u>				<u>3,074</u>
Total Liabilities	<u>170,446</u>	<u>220,000</u>	<u>4,746</u>	<u>0</u>	<u>395,192</u>
<u>FUND BALANCES:</u>					
Restricted for:					
Public works		28,760			28,760
Community development					0
Unassigned	<u>1,313,275</u>		(2,260)		<u>1,311,015</u>
Total Fund Balances	<u>1,313,275</u>	<u>28,760</u>	<u>(2,260)</u>	<u>0</u>	<u>1,339,775</u>
Total Liabilities and Fund Balances	\$ 1,483,721	\$ 248,760	\$ 2,486	\$ 0	\$ 1,734,967
	=====	=====	=====	=====	=====

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

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

	<u>General</u>	<u>Liquid Fuels</u>	<u>Community Development</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 2,883,862	\$	\$		\$ 2,883,862
Licenses and permits	152,550				152,550
Fines and forfeits	38,676				38,676
Interest and rents	147,826	3,635			151,461
Intergovernmental revenues	216,359	185,977	35,000		437,336
Charges for service	910,069				910,069
Miscellaneous revenues	158,813				158,813
Total Revenue	<u>4,508,155</u>	<u>189,612</u>	<u>35,000</u>	<u>0</u>	<u>4,732,767</u>
EXPENDITURES					
Current					
General government	612,522		37		612,559
Public safety	1,248,307				1,248,307
Public works	1,430,402		4,071		1,434,473
Culture and recreation	421,670				421,670
Community development	42,516		15,327		57,843
Insurance, employee benefits and miscellaneous	700,770				700,770
Debt service - principal retirement				408,503	408,503
Debt service - interest & fiscal charges				320,279	320,279
Capital outlay	465,195				465,195
Total Expenditures	<u>4,921,382</u>	<u>0</u>	<u>19,435</u>	<u>728,782</u>	<u>5,669,599</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(413,227)</u>	<u>189,612</u>	<u>15,565</u>	<u>(728,782)</u>	<u>(936,832)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general long-term debt					
Operating transfers in	305,081			85,081	85,081
Operating transfers out	(691,514)	(220,000)		728,782	1,033,863
Total Other Financing Sources (Uses)	<u>(386,433)</u>	<u>(220,000)</u>	<u>0</u>	<u>728,782</u>	<u>(996,595)</u>
Net change in fund balances	(799,660)	(30,388)	15,565	0	(814,483)
FUND BALANCES, JANUARY 1	<u>2,112,935</u>	<u>59,148</u>	<u>(17,825)</u>	<u>0</u>	<u>2,154,258</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,313,275</u>	<u>\$ 28,760</u>	<u>\$ (2,260)</u>	<u>\$ 0</u>	<u>\$ 1,339,775</u>

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

BOROUGH OF CATASAUQUA
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, 2018

Net Change in Fund Balances - Governmental Funds \$ (814,483)

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 position. The capital
outlay for the current year is \$465,195. 465,195

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
position differs from the change in fund balance by
the cost of the disposed assets of \$(79,438), net
of related accumulated depreciation of \$0. (79,438)

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 position. Repayment of bond
and capital lease principal is an expenditure in
the governmental funds, but the repayment reduces
long-term liabilities in the statement of net
position. The effect of these transactions
in the statement are shown below:

Proceeds extended term financing	\$ (85,081)		
Repayment of debt service principal	408,503		323,422

Change in Net Position of Governmental Activities		\$ (105,304)	=====
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The accompanying notes are an integral part of the financial
statements.

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

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Collection</u>	<u>Fund</u>	<u>Funds</u>
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 112,777	\$ 391,476	\$ 351,435	\$ 855,688
Due from other funds	16,195	17,050	18,524	51,769
Total Current Assets	128,972	408,526	369,959	907,457
<u>Noncurrent Assets:</u>				
Sewer system, net of accumulated depreciation	5,094,747	88,296	-	5,183,043
Water system, net of accumulated depreciation	-	-	284,732	284,732
Total Assets	\$ 5,223,719	\$ 496,822	\$ 654,691	\$ 6,375,232
<u>LIABILITIES</u>				
Due to other funds	\$ -	\$ 1,524	\$ 1,743	\$ 3,267
Water revenue notes payable	-	-	107,711	107,711
Bonds payable	4,595,000	-	-	4,595,000
Total Liabilities	4,595,000	1,524	109,454	4,705,978
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	499,747	88,296	177,021	765,064
Unrestricted	128,972	407,002	368,216	904,190
Total Net Position	\$ 628,719	\$ 495,298	\$ 545,237	\$ 1,669,254

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

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

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Collection</u>	<u>Fund</u>	<u>Funds</u>
OPERATING REVENUES				
Licenses and permits	\$ 9,750	\$ -	\$ -	\$ 9,750
Charges for services	1,023,687	874,747	629,611	2,528,045
Total Operating Revenues	<u>1,033,437</u>	<u>874,747</u>	<u>629,611</u>	<u>2,537,795</u>
OPERATING EXPENSES				
Salaries, wages & employee benefits	490,423	167,377	338,196	995,996
Contractual services	413,793	652,714	169,445	1,235,952
Supplies	68,864	6,255	62,783	137,902
Materials	-	281	21,004	21,285
Utilities	92,610	-	53,038	145,648
Depreciation	282,234	5,823	26,570	314,627
Total Operating Expenses	<u>1,347,924</u>	<u>832,450</u>	<u>671,036</u>	<u>2,851,410</u>
OPERATING INCOME (LOSS)	<u>(314,487)</u>	<u>42,297</u>	<u>(41,425)</u>	<u>(313,615)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	990	808	1,943	3,741
Interest expense	(103,330)	-	(3,799)	(107,129)
Total Nonoperating Revenues (Expenses)	<u>(102,340)</u>	<u>808</u>	<u>(1,856)</u>	<u>(103,388)</u>
NET INCOME OR (LOSS) BEFORE OPERATING TRANSFERS	(416,827)	43,105	(43,281)	(417,003)
Operating transfers	-	(11,000)	(26,268)	(37,268)
CHANGE IN NET POSITION	(416,827)	32,105	(69,549)	(454,271)
NET POSITION - BEGINNING OF YEAR	1,045,546	463,193	614,786	2,123,525
NET POSITION - END OF YEAR	<u>\$ 628,719</u>	<u>\$ 495,298</u>	<u>\$ 545,237</u>	<u>\$ 1,669,254</u>

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

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

		<u>Enterprise Funds</u>			
	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>		<u>Total</u>
	<u>Fund</u>	<u>Collection</u>	<u>Fund</u>		
		<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (314,487)	\$ 42,297	\$ (41,425)	\$	(313,615)
Item not requiring cash					
Depreciation	<u>282,234</u>	<u>5,823</u>	<u>26,570</u>		<u>314,627</u>
Sub-total	(32,253)	48,120	(14,855)		1,012
(Increase) decrease in due -					
from other funds	(16,195)	(17,050)	(18,524)		(51,769)
Increase (decrease) in due -					
to other funds	<u></u>	<u>1,524</u>	<u>1,743</u>		<u>3,267</u>
Net Cash Flows From					
Operating Activities	<u>(48,448)</u>	<u>32,594</u>	<u>(31,636)</u>		<u>(47,490)</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES					
Operating transfers	<u></u>	<u>(11,000)</u>	<u>(26,268)</u>		<u>(37,268)</u>
Net Cash Flows From					
Noncapital Activities	<u>0</u>	<u>(11,000)</u>	<u>(26,268)</u>		<u>(37,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Additions-sewer/water systems	(8,032)	(64,719)	(80,911)		(153,662)
Interest expense	(103,330)		(3,799)		(107,129)
Repayment of sewer bonds	(235,000)				(235,000)
Repayment of water revenue					
notes payable	<u></u>	<u></u>	<u>(21,684)</u>		<u>(21,684)</u>
Net Cash Flows From					
Financing Activities	<u>(346,362)</u>	<u>(64,719)</u>	<u>(106,394)</u>		<u>(517,475)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	<u>990</u>	<u>808</u>	<u>1,943</u>		<u>3,741</u>
Net Cash Flows From					
Investing Activities	<u>990</u>	<u>808</u>	<u>1,943</u>		<u>3,741</u>
Net Increase (Decrease) in Cash					
and Cash Equivalents	(393,820)	(42,317)	(162,355)		(598,492)
Cash and Cash Equivalents,					
January 1	<u>506,597</u>	<u>433,793</u>	<u>513,790</u>		<u>1,454,180</u>
Cash and Cash Equivalents,					
December 31	\$ 112,777	\$ 391,476	\$ 351,435	\$	855,688
	=====	=====	=====		=====

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

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

	Police Pension <u>Plan</u>	Employee Pension <u>Plan</u>	Total Fiduciary <u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Investments, at fair value:			
Assets with MRT	<u>2,766,828</u>	<u>2,617,104</u>	<u>5,383,932</u>
Total investments	<u>2,766,828</u>	<u>2,617,104</u>	<u>5,383,932</u>
Total Assets	<u>2,766,828</u>	<u>2,617,104</u>	<u>5,383,932</u>
<u>LIABILITIES</u>			
None	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<u>NET POSITION</u>			
Restricted for pension benefits	\$2,766,828 =====	\$2,617,104 =====	\$5,383,932 =====

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

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

	<u>Police Pension Plan</u>	<u>Employee Pension Plan</u>	<u>Total Fiduciary Funds</u>
<u>ADDITIONS:</u>			
Contributions,			
Employer	\$ 189,708	\$ 62,950	\$ 252,658
Employee	<u>47,647</u>	<u>0</u>	<u>47,647</u>
Total Contributions	<u>237,355</u>	<u>62,950</u>	<u>300,305</u>
Investment income,			
Net (depreciation) in fair			
value of investments	(183,821)	(176,455)	(360,276)
Interest and dividends	<u>46,670</u>	<u>44,440</u>	<u>91,110</u>
	(137,151)	(132,015)	(269,166)
Less: investment expenses	<u>0</u>	<u>0</u>	<u>0</u>
Net Investment (Loss)	<u>(137,151)</u>	<u>(132,015)</u>	<u>(269,166)</u>
Total Additions	<u>100,204</u>	<u>(69,065)</u>	<u>31,139</u>
<u>DEDUCTIONS:</u>			
Benefits	270,275	59,550	329,825
Administrative expenses	17,958	17,285	35,243
Other	<u>32,617</u>	<u>0</u>	<u>32,617</u>
Total Deductions	<u>320,850</u>	<u>76,835</u>	<u>397,685</u>
Change in net position	(220,646)	(145,900)	(366,546)
Net position restricted			
for pension benefits,			
Beginning of year	<u>2,987,474</u>	<u>2,763,004</u>	<u>5,750,478</u>
End of year	\$2,766,828	\$2,617,104	\$5,383,932
	=====	=====	=====

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

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

NOTE 1 Summary of Significant Accounting Policies

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

Principles Determining Scope of Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Measurement Focus

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

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

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

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

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus (Continued)

b. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

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

Financial Statement Presentation

The Borough reports the following governmental fund types:

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

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

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

NOTE 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

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

The Borough reports the following enterprise fund types:

The Sewer Fund, Wastewater Collection Fund and Water 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 Plan are used to account for fiduciary resources legally held in trust for the receipt, investment, and distribution of retirement benefits.

Net Position

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

Fund Balance Reporting

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

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

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

NOTE 1 Summary of Significant Accounting Policies (Continued)

Fund Balance Reporting (Continued)

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

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

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

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

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

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

NOTE 1 Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Borough applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 CATASAUQUA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

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, Community Development Fund, Sewer Fund, Wastewater Collection Fund and Water Fund.

7) The legally required and adopted budgets of the Borough are for the General Fund, Community Development Fund, Sewer Fund, Wastewater Collection Fund and Water Fund.

8) Budgets for the General Fund, Community Development, Sewer Fund, Wastewater Collection Fund and Water 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 2018. 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 CATASAUQUA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable

As a result of using the cash basis method of accounting, \$146,965 of property taxes receivable as of December 31, 2018, 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 40 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 CATASAUQUA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

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, Community Development Fund, Sewer Fund, Wastewater Collection Fund and the Water 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, 2018.

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.

Reclassifications

Certain amounts and balances presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. The Borough adopted GASB Statement No. 68 for its December 31, 2015 financial statements. The adoption of this Statement affected disclosures and supplementary information only, as the Borough reports on the cash basis of accounting.

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

NOTE 2 Deposits and Investments

The Borough's current investment policy is to take 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, 2018, the carrying amount of the Borough's deposits is \$2,261,602 and the bank balance is \$2,506,378. Of the bank balance, \$250,000 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, \$2,256,378 at December 31, 2018, 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.

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

NOTE 2 Deposits and Investments (Continued)

INVESTMENTS: (Continued)

Investments made by the Borough as of December 31, 2018, 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:

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

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

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

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	Fair Value/ Carrying <u>Amount</u>	<u>Market</u>
Mutual Funds \$	-0-	\$ -0-	\$5,383,932	\$ 5,383,932	\$ 5,383,932
	=====	=====	=====	=====	=====

NOTE 3 Capital Assets

The following is a summary of the changes in the capital asset activity for the year ended December 31, 2018:

	Balance December 31, <u>2017</u>	Increases (Decreases)	Balance December 31, <u>2018</u>
<u>Governmental activities:</u>			
Borough buildings, land and improvements	\$12,516,242	\$ 314,163	\$ -0- \$12,830,405
Machinery & equipment	<u>2,774,196</u>	<u>151,032</u>	<u>(79,438)</u> <u>2,845,790</u>
Governmental activities capital assets	\$15,290,438	\$ 465,195	\$ (79,438) \$15,676,195
	=====	=====	=====

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

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

NOTE 3 Capital Assets (Continued)

The following is a summary of proprietary fund type property, plant, and equipment at December 31, 2018:

	<u>Water</u> <u>Fund</u>	<u>Sewer &</u> <u>Wastewater</u> <u>Collection</u> <u>Funds</u>	<u>Total</u>
<u>Enterprise Funds:</u>			
Sewer and Water Systems	\$1,953,776	\$12,501,168	\$14,454,944
Less accumulated depreciation	<u>1,669,044</u>	<u>7,318,125</u>	<u>8,987,169</u>
Sewer and Water Systems, Net of Accumulated Depreciation	\$ 284,732	\$ 5,183,043	\$ 5,467,775
	=====	=====	=====

Depreciation charged to operations for the Water Fund, the Sewer Fund and Wastewater Collection Fund was \$26,570, \$282,234, and \$5,823 respectively, for the year ended December 31, 2018.

NOTE 4 Long-Term Debt

The following is a summary of the details of general obligation bonds, and installment loans payable for the year ended December 31, 2018.

General Obligation Bonds, Series of 2016: serial bonds: date of issuance July 28, 2016; original par amount \$11,210,000; interest rate varies from 1.05% to 3.0%. Proceeds of the Bonds will be used for the construction of the new municipal complex. Maturity date is August 15, 2046. The Bonds are subject to redemption prior to maturity.

General Obligation Bonds, Series A of 2016: serial bonds: date of issuance October 4, 2016; original par amount \$4,960,000; interest rate varies from 0.72% to 3.0%. Proceeds of the Bonds will be used to currently refund the Borough's General Obligations Bonds, Series of 2011, and to pay the costs and expenses of issuing the Bonds. Maturity date is November 15, 2035. The Bonds are subject to redemption prior to maturity.

The Borough has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$22,524, including principal and interest at 3.0% over 5 years. The installment loan was paid off during 2018.

The Borough has an installment loan payable, secured by public safety equipment. The loan requires five annual payments of \$7,818, including principal and interest at 5.58% over 5 years. The principal outstanding at December 31, 2018, is \$7,404.

The Borough has an installment loan payable, secured by public works equipment. The loan requires five annual payments of \$31,404, including principal and interest at 3.75% over 5 years. The principal outstanding at December 31, 2018, is \$59,444.

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

NOTE 4 Long-Term Debt (Continued)

The Borough has an installment loan payable, secured by public safety equipment. The loan requires ten annual payments of \$62,001, including principal and interest at 3.14% over 10 years. The principal outstanding at December 31, 2018, is \$384,187.

The Borough has an installment loan payable, secured by public safety equipment. The loan requires three annual payments of \$11,055, including principal and interest at 6.36% over 3 years. The principal outstanding at December 31, 2018, is \$10,394.

The Borough has an installment loan payable, secured by parks equipment. The loan requires two annual payments of \$12,125, including principal and interest at 4.50% over 2 years. The installment loan was paid off during 2018.

The Borough has an installment loan payable, secured by public safety equipment. The loan requires four annual payments of \$14,214, including principal and interest at 6.28% over 4 years. The principal outstanding at December 31, 2018, is \$37,797.

The Borough has an installment loan payable, secured by public safety equipment. The loan requires five annual payments of \$7,531, including principal and interest at 6.95% over 5 years. The principal outstanding at December 31, 2018, is \$25,539.

The following is a summary of general obligation bonds, and installment loans payable for the year ending December 31, 2018:

General Obligation Bonds & Loans	Payable January 1,	Issued	Retired	Payable December 31,
Governmental-type:				
Series of 2016	\$10,970,000	\$ -0-	\$ 260,000	\$10,710,000
Installment Loan	21,860	-0-	21,860	-0-
Installment Loan	14,418	-0-	7,014	7,404
Installment Loan	87,564	-0-	28,120	59,444
Installment Loan	432,585	-0-	48,398	384,187
Installment Loan	20,167	-0-	9,773	10,394
Installment Loan	11,593	-0-	11,593	-0-
Installment Loan	-0-	52,011	14,214	37,797
Installment Loan	-0-	33,070	7,531	25,539
Total	11,558,187	85,081	408,503	11,234,765
Business-type:				
Series of 2016 (A)	4,830,000	-0-	235,000	4,595,000
Total	4,830,000	-0-	235,000	4,595,000
Total	\$16,388,187	\$ 85,081	\$ 643,503	\$15,829,765
	=====	=====	=====	=====

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

NOTE 4 Long-Term Debt (Continued)

The annual debt service requirements to maturity for governmental-type general obligation bonds including interest are as follow, as of December 31, 2018:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 260,000	\$ 297,295	\$ 557,295
2020	270,000	289,495	559,495
2021	280,000	281,395	561,395
2022	285,000	272,995	557,995
2023	295,000	264,445	559,445
2024	305,000	255,595	560,595
2025	315,000	246,445	561,445
2026	320,000	240,145	560,145
2027	325,000	233,745	558,745
2028	330,000	227,082	557,082
2029	340,000	220,070	560,070
2030	345,000	212,420	557,420
2031	355,000	204,312	559,312
2032	365,000	195,615	560,615
2033	370,000	186,490	556,490
2034	385,000	176,130	561,130
2035	395,000	165,350	560,350
2036	405,000	154,290	559,290
2037	415,000	142,950	557,950
2038	430,000	130,500	560,500
2039	440,000	117,600	557,600
2040	455,000	104,400	559,400
2041	470,000	90,750	560,750
2042	480,000	76,650	556,650
2043	495,000	62,250	557,250
2044	510,000	47,400	557,400
2045	525,000	32,100	557,100
2046	545,000	16,350	561,350
	<u>\$10,710,000</u>	<u>\$4,944,264</u>	<u>\$15,654,264</u>
	=====	=====	=====

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

NOTE 4 Long-Term Debt (Continued)

The annual debt service requirements to maturity for governmental-type installment loans including interest are as follows, as of December 31, 2018:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$114,489	\$ 19,534	\$134,023
2020	100,499	14,651	115,150
2021	73,067	10,679	83,746
2022	61,821	7,711	69,532
2023	56,501	5,500	62,001
2024	58,278	3,723	62,001
2025	60,110	1,891	62,001
	<u>\$524,765</u>	<u>\$ 63,689</u>	<u>\$588,454</u>
	=====	=====	=====

The annual debt service requirements to maturity for business-type general obligation bonds including interest are as follows, as of December 31, 2018:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 230,000	\$ 100,980	\$ 330,980
2020	235,000	98,680	333,680
2021	240,000	95,155	335,155
2022	245,000	90,355	335,355
2023	245,000	87,048	332,048
2024	255,000	82,148	337,148
2025	255,000	77,940	332,940
2026	260,000	73,350	333,350
2027	265,000	68,150	333,150
2028	275,000	62,850	337,850
2029	275,000	57,006	332,006
2030	285,000	50,475	335,475
2031	290,000	43,706	333,706
2032	295,000	36,094	331,094
2033	310,000	28,350	338,350
2034	315,000	19,050	334,050
2035	320,000	9,600	329,600
	<u>\$4,595,000</u>	<u>\$1,080,937</u>	<u>\$5,675,937</u>
	=====	=====	=====

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

NOTE 5 Guaranteed Water Revenue Note

The \$420,000 2002 Guaranteed Water Revenue Note is due in monthly installments through 2023 with interest ranging from 2.768% to 3.465%. The principal drawn down as of December 31, 2018, is \$408,267.

The following is a summary of the 2002 Guaranteed Water Revenue Note payable for the year ended December 31, 2018:

Balance, January 1	\$ 129,395
Additions during 2018	-0-
Retirements during 2018	<u>21,684</u>
Balance, December 31	\$ 107,711
	=====

The following is a summary of the future debt service requirements for the 2002 Guaranteed Water Revenue Note:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 24,452	\$ 3,347	\$ 27,799
2020	25,313	2,486	27,799
2021	26,205	1,594	27,799
2022	27,127	672	27,799
2023	<u>4,614</u>	<u>20</u>	<u>4,634</u>
	\$107,711	\$ 8,119	\$115,830
	=====	=====	=====

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

NOTE 6 Defined Benefit Pension Plans

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

Plan Description for the Uniformed Employees

The Pension Plan for the Police Employees of the Borough of Catasauqua is a single-employer defined benefit plan that covers all full-time uniformed employees of the Borough. The retirement benefit is equal to 50% of their final monthly average compensation. 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 Catasauqua. The Plan does not issue a stand-alone financial report.

Funding Policy for the Uniformed Employees

Act 205 requires that annual contributions to the Plan be based upon the Plan's Minimum Municipal Obligation (MMO), which is based on the Plan's biennial actuarial valuation. The most recent actuarial valuation was performed January 1, 2017. The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of state aid must be paid by the municipality in accordance with Act 205. As a condition of participation, full-time employees are required to contribute 8% of compensation to the Plan. This contribution is governed by the Plan's ordinances and collective bargaining agreement.

Plan Description for the Nonuniformed Employees

The Pension Plan for the Nonuniformed Employees of the Borough of Catasauqua is a single-employer defined benefit plan that covers all full-time nonuniformed employees of the Borough. The retirement benefit is equal to 1.5% of their average monthly compensation for each year of service, 33 1/3 years is the maximum. Normal retirement date is age 65 with 10 years of credited service and participants become 100% vested upon the completion of 10 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 Catasauqua. The Plan does not issue a stand-alone financial report.

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

NOTE 6 Defined Benefit Pension Plans (Continued)

Funding Policy for the Nonuniformed Employees

Act 205 requires that annual contributions to the Plan be based upon the Plan's Minimum Municipal Obligation (MMO), which is based on the Plan's biennial actuarial valuation. The most recent actuarial valuation was performed January 1, 2017. The Plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of state aid must be paid by the municipality in accordance with Act 205. As a condition of participation, full-time employees are not required to contribute to the Plan.

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	\$ 189,708	\$ 62,950
Interest on net pension obligation	-0-	-0-
Adjustment to annual required contribution	-0-	-0-
Annual pension costs	189,708	62,950
Contributions made	189,708	62,950
Increase (decrease) in net pension obligation	-0-	-0-
Net pension obligation beginning of year	-0-	-0-
Net pension obligation end of year	\$ -0-	\$ -0-
	=====	=====

Annual Pension Cost and Net Pension Obligation

The annual required contribution for the current year was determined as part of the January 1, 2017, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% and 7.50% investment rate of return for the uniform and nonuniformed plans respectively, and (b) projected salary increases of 5.00% and 5.00% per year for the uniform and nonuniformed plans, 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 the fresh start smoothing method.

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

NOTE 6 Defined Benefit Pension Plans (Continued)

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	12/31/16	\$ 155,749	100%	\$ 0
	12/31/17	157,992	100%	0
	12/31/18	189,708	100%	0
Nonuniformed Plan	12/31/16	\$ 65,731	100%	\$ 0
	12/31/17	64,168	100%	0
	12/31/18	62,950	100%	0

Plan Membership Information

Membership in the pension plans as of December 31, 2018, (the most recent date available) are as follows:

	<u>Uniformed</u>	<u>Nonuniformed</u>
Active employees	6	20
Retirees and beneficiaries currently receiving benefits	9	5
Terminated employees entitled to benefits but not yet receiving them	<u>0</u>	<u>5</u>
Total	<u>15</u>	<u>30</u>
	===	===

Summary of Significant Accounting Policies

Basis of Accounting

Both Plan's financial statements are prepared using the accrual basis of accounting. Plan pension payments and member/employer contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

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

Note 6 Defined Benefit Pension Plans (Continued)

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, 2018, 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>
PSAB Balanced Fund	\$2,766,828	\$2,617,104

Expenses

Investment expenses consist of investment management, custodial fees, and other significant investment related costs. Administrative expenses consist of consulting, actuarial, legal, and accounting services, along with any other significant Plan related costs. The above expenses are allowable pension plan expenditures in accordance with Act 205 and may be funded with Plan assets.

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

At December 31, 2018, the Borough's net pension liability is \$1,642,484. The total pension liability of \$4,432,056 was determined as part of an actuarial valuation at January 1, 2017. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2018.

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

NOTE 6 Defined Benefit Pension Plans (Continued)

Changes in Net Pension Liability

The following table shows the changes in the Uniformed Employees plan net pension liability recognized over the measurement period.

	<u>Increase/ (Decrease)</u>		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2017	\$4,312,334	\$3,008,058	\$1,304,276
Changes for the year:			
Service cost	100,157		100,157
Interest	319,682		319,682
Differences between expected and actual experience			0
Changes of assumptions			0
Contributions-employer		98,073	(98,073)
Contributions-state aid		91,635	(91,635)
Contributions-member		47,031	(47,031)
Net investment income		(137,150)	137,150
Benefit payments	(300,117)	(300,117)	0
Administrative expense		(17,958)	17,958
Balance at 12/31/2018	<u>\$4,432,056</u>	<u>\$2,789,572</u>	<u>\$1,642,484</u>

Pension Expense

For the year ended December 31, 2018 the actuarial determined uniformed employees plan pension expense is \$291,773. However, the Borough recognizes pension expense on the cash basis which totaled \$189,708.

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

NOTE 6 Defined Benefit Pension Plans (Continued)

Deferred Outflows and Deferred Inflows of Resources

At December 31, 2018, the Borough has deferred outflows of resources related to the uniformed employees pensions from the following sources at December 31, 2018:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 35,653
Changes in assumption	53,088
Net difference between projected and actual earnings on pension plan investments	<u>268,757</u>
Total	\$ 357,498 =====

Actuarially determined deferred outflows of resources related to the pension plan will be recognized in the pension expense as follows:

Year Ended December 31, 2019	\$120,006
2020	76,460
2021	61,702
2022	90,716
2023	8,131
Thereafter	483

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

At December 31, 2018, the Borough's net pension liability is \$556,821. The total pension liability of \$3,173,925 was determined as part of an actuarial valuation at January 1, 2017. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2018.

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

Note 6 Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

The following table shows the changes in the Nonuniformed Employees plan net pension liability recognized over the measurement period.

		<u>Increase/ (Decrease)</u>	
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2017	\$2,942,003	\$2,763,004	\$ 178,999
Changes for the year:			
Service cost	67,958		67,958
Interest	223,514		223,514
Differences between expected and actual experience			0
Changes of assumptions			0
Contributions-state aid		62,950	(62,950)
Net investment income		(132,015)	132,015
Benefit payments	(59,550)	(59,550)	0
Administrative expense		(17,285)	17,285
Balance at 12/31/2018	<u>\$3,173,925</u>	<u>\$2,617,104</u>	<u>\$ 556,821</u>

Pension Expense

For the year ended December 31, 2018, the actuarial determined nonuniformed employees plan pension expense is \$167,466. However, the Borough recognizes pension expense on the cash basis which totaled \$62,950.

Deferred Outflows and Deferred Inflows of Resources

At December 31, 2018, the Borough has deferred outflows of resources and deferred inflows of resources related to the nonuniformed employees pensions from the following sources at December 31, 2018:

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

NOTE 6 Defined Benefit Pension Plans (Continued)

Deferred Outflows and Deferred Inflows of Resources (Continued)

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 0	\$ (234,578)
Changes in assumption	60,188	0
Net difference between projected and actual earnings on pension plan investments	<u>250,557</u>	<u>0</u>
Total	\$ 310,745 =====	\$ (234,578) =====

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

Year Ended December 31, 2019	\$ 64,235
2020	26,615
2021	13,639
2022	41,320
2023	(21,779)
Thereafter	(47,863)

Actuarial Assumptions

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

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

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

NOTE 6 Defined Benefit Pension Plans (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the Uniformed Employee pension plan and Nonuniformed employee pension plan investment's were determined using an asset allocation study conducted by the Plans' investment management consultant in December 2018 in which best estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in both pension plan's target asset allocation as of December 31, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap Growth	18.50%	N/A*
US Large Cap Value	18.50%	N/A*
US Small & Mid Cap Value	6.00%	N/A*
US Small & Mid Cap Growth	2.00%	N/A*
International Equity	14.00%	N/A*
Emerging Markets Equity	1.00%	N/A*
US Fixed Income	35.00%	N/A*
Private Real Estate	5.00%	N/A*
Cash	<u>0.00%</u>	<u>N/A*</u>
Total	100.00%	N/A*

* Not Available

Long Term Expected Rate of Return Including Inflation - 6.90%

The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the Pension Board.

Both plan's investment policy establishes that the portfolio may be invested in the above asset classes and with the target allocation for each class.

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

Note 6 Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based upon the Plan's current target investment allocation and the associated long-term expected investment returns for its asset classes, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability. The actuary recommends that the governing body explore the costs of lowering the actuarial assumed investment rate of return going forward to be more consistent with the Plan's anticipated investment returns.

Net Pension Liability Sensitivity

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

	<u>Net Pension Liability</u>		
	1% Decrease	Current	1% Increase
	<u>6.50%</u>	<u>Discount Rate</u>	<u>8.50%</u>
		<u>7.50%</u>	
Uniformed Employee	\$ 2,141,104	\$ 1,642,484	\$ 1,221,812
Nonuniformed Employee	\$ 908,712	\$ 556,821	\$ 250,399

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

NOTE 7 Deferred Compensation Plan

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

NOTE 8 Compensated Absences

Accumulated unpaid vacation and sick pay benefits accrue based on length of service and employment. There was no material unused accrued vacation or sick pay benefits as of December 31, 2018. Also, in accordance with the provisions of Governmental Accounting Standards Board, no liability is recorded for the non-vested accumulated rights to receive vacation and sick pay benefits.

NOTE 9 Litigation

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

NOTE 10 Contingencies

The Borough participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2018, have not yet been conducted. Accordingly, the Borough's, compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Borough expects such amounts, if any, to be immaterial.

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

NOTE 11 Deficit Fund Balances

The Community Development Fund of the Borough had a deficit fund balance at December 31, 2018.

The General Fund's: General Government, Insurance, Benefits, & Miscellaneous, and Capital Outlay budget categories had expenditures in excess of appropriations for the year ended December 31, 2018.

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 January 17, 2020, which was the date financial statements were available to be issued.

BOROUGH OF CATASAUQUA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - CASH BASIS
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Taxes	\$ 2,743,570	\$ 2,743,570	\$ 2,883,862	\$ 140,292
Licenses and permits	140,200	140,200	152,550	12,350
Fines and forfeits	29,000	29,000	38,676	9,676
Interest and rents	148,360	148,360	147,826	(534)
Intergovernmental revenues	245,710	245,710	216,359	(29,351)
Charges for service	891,325	891,325	910,069	18,744
Miscellaneous revenues	222,300	222,300	158,813	(63,487)
Total revenues	4,420,465	4,420,465	4,508,155	87,690

EXPENDITURES

Current				
General government	397,985	397,985	612,522	(214,537)
Public safety	1,446,505	1,446,505	1,248,307	198,198
Public works	1,522,920	1,522,920	1,430,402	92,518
Culture and recreation	653,660	653,660	421,670	231,990
Community development	60,850	60,850	42,516	18,334
Insurance, benefits & miscellaneous	282,385	282,385	700,770	(418,385)
Debt service - interest & fiscal charges	0	0	0	0
Capital outlay	263,320	263,320	465,195	(201,875)
Total expenditures	4,627,625	4,627,625	4,921,382	(293,757)

Excess (deficiency) of revenues over (under) expenditures (207,160) (207,160) (413,227) (206,067)

OTHER FINANCING SOURCES (USES)

Proceeds of general long term debt	0	0	0	0
Operating transfers in	220,000	220,000	305,081	85,081
Operating transfers out	(560,025)	(560,025)	(691,514)	(131,489)

Net change in fund balances (547,185) (547,185) (799,660) (252,475)

Fund Balances, January 1 1,227,965 1,227,965 2,112,935 884,970

Fund Balances, December 31 \$ 680,780 \$ 680,780 \$ 1,313,275 \$ 632,495

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

BOROUGH OF CATASAUQUA
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
UNIFORMED PENSION PLAN

POLICE PENSION PLAN (UNIFORMED PLAN)

Last 10 Fiscal Years*

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
<u>Total Pension Liability</u>					
Service cost	\$ 67,775	\$ 85,189	\$ 89,448	\$ 95,388	\$ 100,157
Interest	267,668	283,484	293,634	309,219	319,682
Differences between expected and actual experience	-	7,217	-	44,750	-
Changes of assumptions	-	88,718	-	12,650	-
Benefit payments, including refunds of member contributions	(238,199)	(237,608)	(237,608)	(239,619)	(300,117)
Net change in total pension liability	97,244	227,000	145,474	222,388	119,722
Total pension liability - beginning	3,620,228	3,717,472	3,944,472	4,089,946	4,312,334
Total pension liability - ending	<u>\$ 3,717,472</u>	<u>\$ 3,944,472</u>	<u>\$ 4,089,946</u>	<u>\$ 4,312,334</u>	<u>\$ 4,432,056</u>
<u>Plan Fiduciary Net Position</u>					
Contributions - employer	\$ 66,341	\$ 60,721	\$ 68,367	\$ 70,748	\$ 98,073
Contributions - State Aid	55,070	65,598	87,382	87,244	91,635
Contributions - member	41,324	46,651	47,364	49,006	47,031
Net investment income	158,518	(17,081)	119,869	347,312	(137,150)
Benefit payments, including refunds of member contributions	(238,199)	(237,608)	(237,608)	(239,619)	(300,117)
Administrative expense	(16,405)	(20,360)	(17,861)	(21,295)	(17,958)
Net change in plan fiduciary net position	66,649	(102,079)	67,513	293,396	(218,486)
Plan fiduciary net position - beginning	2,682,579	2,749,228	2,647,149	2,714,662	3,008,058
Plan fiduciary net position - ending	<u>\$ 2,749,228</u>	<u>\$ 2,647,149</u>	<u>\$ 2,714,662</u>	<u>\$ 3,008,058</u>	<u>\$ 2,789,572</u>
Municipality's net position liability	<u>\$ 968,244</u>	<u>\$ 1,297,323</u>	<u>\$ 1,375,284</u>	<u>\$ 1,304,276</u>	<u>\$ 1,642,484</u>
Covered-employee payroll	\$ 438,276	\$ 504,874	\$ 566,098	\$ 593,222	\$ 632,440
Net pension liability as a percentage of its covered employee payroll	220.9%	257.0%	242.9%	219.9%	259.7%
Plan fiduciary net position as a percentage of the total pension liability	74.0%	67.1%	66.4%	69.8%	62.9%

Notes to schedules:

Assumption Changes - In 2015, the mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2015 using Scale AA. In 2017, the mortality assumption was changed from the RP-2000 Table projected to 2015 to the RP-2000 Table projected to 2017 using Scale AA.

* This schedule will be presented on a prospective basis.

BOROUGH OF CATASAUQUA
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
NONUNIFORMED PENSION PLAN

EMPLOYEES PENSION PLAN (NONUNIFORMED PLAN)

	Last 10 Fiscal Years*				
	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Total Pension Liability					
Service cost	\$ 71,349	\$ 59,361	\$ 62,329	\$ 64,722	\$ 67,958
Interest	174,074	185,904	202,664	206,444	223,514
Differences between expected and actual experience	-	(153,033)	-	(196,145)	-
Changes of assumptions	-	95,440	-	13,196	-
Benefit payments, including refunds of member contributions	(20,707)	(15,496)	(34,042)	(34,042)	(59,550)
Net change in total pension liability	224,716	172,176	230,951	54,175	231,922
Total pension liability - beginning	2,259,985	2,484,701	2,656,877	2,887,828	2,942,003
Total pension liability - ending	<u>\$ 2,484,701</u>	<u>\$ 2,656,877</u>	<u>\$ 2,887,828</u>	<u>\$ 2,942,003</u>	<u>\$ 3,173,925</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - State Aid	68,856	63,790	65,731	64,168	62,950
Contributions - member	-	-	-	-	-
Net investment income	130,748	(15,802)	107,761	320,074	(132,015)
Benefit payments, including refunds of member contributions	(20,707)	(15,496)	(34,042)	(34,042)	(59,550)
Administrative expense	(14,043)	(20,326)	(17,464)	(20,509)	(17,285)
Net change in plan fiduciary net position	164,854	12,166	121,986	329,691	(145,900)
Plan fiduciary net position - beginning	2,134,307	2,299,161	2,311,327	2,433,313	2,763,004
Plan fiduciary net position - ending	<u>\$ 2,299,161</u>	<u>\$ 2,311,327</u>	<u>\$ 2,433,313</u>	<u>\$ 2,763,004</u>	<u>\$ 2,617,104</u>
Municipality's net position liability	<u>\$ 185,540</u>	<u>\$ 345,550</u>	<u>\$ 454,515</u>	<u>\$ 178,999</u>	<u>\$ 556,821</u>
Covered-employee payroll	\$ 899,946	\$ 833,294	\$ 907,350	\$ 884,408	\$ 920,000
Net pension liability as a percentage of its covered employee payroll	20.6%	41.5%	50.1%	20.2%	60.5%
Plan fiduciary net position as a percentage of the total pension liability	92.5%	87.0%	84.3%	93.9%	82.5%

Notes to schedules:

Assumption Changes - In 2015, the mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2015 using Scale AA. In 2017, the mortality assumption was changed from the RP-2000 Table projected to 2015 to the RP-2000 Table projected to 2017 using Scale AA.

* This schedule will be presented on a prospective basis.

BOROUGH OF CATASAUQUA
SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS

POLICE PENSION PLAN (UNIFORMED PLAN)

	Last 10 Fiscal Years*				
	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Actuarially determined contribution	121,411	126,319	155,749	157,992	189,708
Contributions made	<u>(121,411)</u>	<u>(126,319)</u>	<u>(155,749)</u>	<u>(157,992)</u>	<u>(189,708)</u>
Contribution deficiency (excess)	-	-	-	-	-
Covered-employee payroll	438,276	504,874	566,098	593,222	632,440
Contributions as a percentage of covered-employee payroll	27.70%	25.02%	27.51%	26.63%	30.00%

EMPLOYEES PENSION PLAN (NONUNIFORMED PLAN)

	Last 10 Fiscal Years*				
	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Actuarially determined contribution	68,856	63,790	65,731	64,168	62,950
Contributions made	<u>(68,856)</u>	<u>(63,790)</u>	<u>(65,731)</u>	<u>(64,168)</u>	<u>(62,950)</u>
Contribution deficiency (excess)	-	-	-	-	-
Covered-employee payroll	899,946	833,294	907,350	884,408	920,000
Contributions as a percentage of covered-employee payroll	7.65%	7.66%	7.24%	7.26%	6.84%

* This schedule will be presented on a prospective basis.

BOROUGH OF CATASAUQUA
SUPPLEMENTARY INFORMATION
NOTES TO THE SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS

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

	<u>Uniformed</u> <u>Plan</u>	<u>Nonuniformed</u> <u>Plan</u>
Actuarial Valuation Date:	1/1/17	1/1/17
Actuarial cost method:	Entry age	Entry age
Amortization method:	Level Dollar	Level Dollar
Remaining amortization period:	11 Years	N/A
Asset valuation method:	Asset Smoothing per Section 210(a) of Act 44	Asset Smoothing per Section 210(a) of Act 44
Actuarial assumptions:		
Inflation	2.25%	2.25%
Projected salary increases	5.00%	5.00%
Investment rate of return	7.50%	7.50%
Cost of living adjustments	3.00%	N/A

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

To the Borough Council
Borough of Catasauqua, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Catasauqua, Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough of Catasauqua, Pennsylvania's, basic financial statements and have issued our report thereon dated January 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Catasauqua, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Catasauqua, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Catasauqua, Pennsylvania's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, finding reference number 2018-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Catasauqua, 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 instances 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 2018-1.

Borough of Catasauqua, Pennsylvania's Reponse to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Trance, Anderson, Binkley & Co. P.C.

Emmaus, Pennsylvania
January 17, 2020

BOROUGH OF CATASAUQUA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 2018-1: 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. See additional communication.

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.

Views of Responsible Officials and Planned Corrective Actions: The Borough Council agree with the findings and the auditors' recommendation has been adopted.

QUESTIONED COSTS

None