



EVANS CITY BOROUGH

EVANS CITY, PENNSYLVANIA

ANNUAL FINANCIAL REPORT  
AS OF DECEMBER 31, 2019



**Cypher & Cypher**

Accountants | Auditors | Advisors

EVANS CITY BOROUGH

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Independent Auditor's Report

Evans City Borough  
Evans City, Pennsylvania

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Evans City Borough as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Evans City Borough as of December 31, 2019 and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1E.

### **Basis of Accounting**

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

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Borough's basic financial statements. The management's discussion and analysis and budgetary comparison information on pages i-iv and 5, 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.

CYPHER & CYPHER

*Cypher & Cypher*

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania  
November 2, 2020

## Management's Discussion & Analysis

## EVANS CITY BOROUGH

### EVANS CITY, PENNSYLVANIA

#### Management's Discussion and Analysis (MD&A)

December 31, 2019

Our discussion and analysis of the Evans City Borough's financial performance provides an overview of the Borough's financial activities for the year ended December 31, 2019. The MD&A should be read in conjunction with the financial statements and footnotes.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999.

#### The Borough

The Borough is organized under laws of the Commonwealth of Pennsylvania. (the "Commonwealth").

The governing body of the Borough is an elected Council.

#### Financial Highlights

Our financial statements provide these insights into the results of this year's operations. The General Fund and the Liquid Fuels Fund are our major funds.

- The General fund reported an increase in fund balance of \$58,525.
- The Liquid Fuels Fund reported a decrease in fund balance of \$(43,272).

#### Reporting the Borough as a Whole

#### The Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the Borough as a whole and its activities. The governmental activities include all assets and liabilities that reflect the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

These two statements report the Borough's net position and changes in them. The change in net position provides the reader with a tool to assist in determining whether the Borough's financial health is improving or deteriorating. The reader will need to consider other non-financial factors

such as property tax base, current property tax laws, and facility conditions in arriving at a conclusion regarding the overall health of the Borough.

The following table reflects the condensed Statement of Net Position:

Statement of Net Position  
December 31, 2019

	Governmental Activities	
	<u>2018</u>	<u>2019</u>
Current and Other Assets	\$ 455,555	\$ 457,514
Non Current Assets		
 Total Assets	<u>455,555</u>	<u>457,514</u>
 Current and Other Liabilities		
Non Current Liabilities		
 Total Liabilities	<u>                    </u>	<u>                    </u>
 Invested in Capital Assets		
Restricted	85,572	29,006
Unrestricted	369,983	428,508
 Total Net Position	<u>\$ 455,555</u>	<u>\$ 457,514</u>

**Assets, Liabilities & Net Position**

As of December 31, 2019, the Borough had total assets of \$457 thousand. This amount represents cash and cash equivalents at year end.

Total liabilities as of December 31, 2019 totaled \$-0-, due to the use of the modified cash basis of accounting.

The resulting \$457 thousand in net position include \$29 thousand reserved for various designated purposes and \$428 thousand of undesignated amounts not reserved for specific purposes.

The following table reflects Changes in Net Position:

Fiscal year ended December 31, 2019

Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Program Revenues:		
Charges for Services	\$ 16,733	\$ 10,627
Operating Grants and Contributions	78,704	82,073
General Revenues:		
Property Taxes	242,780	252,410
Other Taxes	247,440	262,770
Grants Subsidies and Contributions	255,589	260,568
Other	182,825	85,697
	<u>1,024,071</u>	<u>954,145</u>
Expenditures:		
General Government	122,477	112,975
Public Safety	369,424	386,219
Health and Sanitation	581	2,684
Highways and Streets	240,897	261,523
Public Works	4,893	4,564
Culture and Recreation	13,526	55,377
Employee Benefits, Insurance and Miscellaneous	128,401	107,278
Debt Service	20,464	21,566
Transfers to Other Governments		
	<u>\$ 900,663</u>	<u>\$ 952,186</u>
Change in Net Position	<u>\$ 123,408</u>	<u>\$ 1,959</u>

**Revenues**

The Borough's General Fund received 53% of its funding from taxes. Revenue from property and earned income taxes is the primary source of revenue for the general fund.

**Expenditures**

Total General Fund spending for 2019 totaled \$850 thousand including principal debt service payments. Public safety expenditures amounted to \$386 thousand or 45% of all General Fund spending. Highways and streets expenditures totaled \$159 thousand or 19%, employee benefits and miscellaneous expenditures amounted to \$107 thousand or 13%, general government totaled \$113 thousand or 13%, and culture and recreation amounted to \$55 thousand or 7%. The remaining 3% is composed of debt service, public works, and health and sanitation expenditures.

## Financial Analysis of Governmental Funds

The following table reflects changes in fund balance:

	<u>General Fund</u>	<u>Liquid Fuels Fund</u>	<u>Hydrant and Light Fund</u>	<u>Combined Total</u>
December 31, 2018	\$ 369,983	\$ 72,278	\$ 13,294	\$ 455,555
Increase (Decrease)	58,525	(43,272)	(13,294)	1,959
December 31, 2019	<u>\$ 428,508</u>	<u>\$ 29,006</u>	<u>\$ -</u>	<u>\$ 457,514</u>

The increase in the General Fund is due to expenditures exceeding revenues during the year.

## Debt Administration

The following table reflects the Borough's long term debt obligations:

<u>Capital Leases</u>	<u>Notes Payable</u>	<u>Total</u>
\$ -	\$ 56,065	\$ 56,065

Principal payments of \$23,162 were made for long term obligations. Long term debt obligations are anticipated to be paid in full in the 2024 year.

## General Fund Budgetary Highlights

For the year ended December 31, 2019, General Fund revenues were \$21 thousand above budgeted revenues, while expenditures were \$27 thousand below budgeted expenditures.

## Contacting the Borough's Financial Management

Our financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Borough's finances and to illustrate the Borough's accountability for the funds it receives. Questions concerning this report or a request for additional information should be addressed to Evans City Borough, 204 South Jackson Street, Evans City, PA 16033, telephone (724) 538-8320.

# Basic Financial Statements

BOROUGH OF EVANS CITY  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2019

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 382,632
Prepaid Expenses/Expenditures	74,882
TOTAL ASSETS	\$ 457,514
LIABILITIES	
Accounts Payable	\$
Total Liabilities	
NET POSITION	
Restricted for:	
Other Reserves	29,006
Unrestricted	428,508
Total Net Position	457,514
TOTAL LIABILITIES AND NET POSITION	\$ 457,514

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

BOROUGH OF EVANS CITY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	and Changes in Net Position Governmental Activities
Governmental Activities				
General Government	\$ 112,975	\$	\$	\$ (112,975)
Public Safety	386,219	8,168	8,983	(369,068)
Health and Sanitation	2,684			(2,684)
Highways and Streets	261,523	2,459	58,385	(200,679)
Public Works	843			(843)
Culture and Recreation	55,377			(55,377)
Employee Benefits, Insurance, and Miscellaneous	107,278		14,705	(92,573)
Debt Service	25,287			(25,287)
Total Governmental Activities	<u>952,186</u>	<u>10,627</u>	<u>82,073</u>	<u>(859,486)</u>
Total Government	952,186	10,627	82,073	(859,486)
General Revenues, Special and Extraordinary Items and Transfers				
Taxes				
Property Taxes				252,410
Other Taxes				262,770
Grants, Subsidies and Contributions, Unrestricted				260,568
Investment Earnings, Rents, and Royalties				52,296
Charges for Services				4,785
Miscellaneous Income				<u>28,616</u>
Total General Revenues, Special and Extraordinary Items and Transfers				<u>861,445</u>
Change in Net Position				1,959
Net Position - Beginning				<u>455,555</u>
Net Position - Ending				<u>\$ 457,514</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

BOROUGH OF EVANS CITY  
BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
DECEMBER 31, 2019

	Governmental Funds			Totals
	General Fund	Liquid Fuels Fund	Hydrant and Light Fund	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 353,626	\$ 29,006	\$	\$ 382,632
Prepaid Expenditures	74,882			74,882
<b>TOTAL ASSETS</b>	<b><u>\$ 428,508</u></b>	<b><u>\$ 29,006</u></b>	<b><u>\$</u></b>	<b><u>\$ 457,514</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Interfund Payable	\$	\$	\$	\$
<b>Total Liabilities</b>				
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Prepaid Expenditures	74,882			74,882
<b>Assigned to:</b>				
Highways		29,006		29,006
<b>Unassigned:</b>				
Total Fund Balances	<u>353,626</u>	<u>29,006</u>	<u>-</u>	<u>353,626</u>
	<u>428,508</u>	<u>29,006</u>	<u>-</u>	<u>457,514</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 428,508</u></b>	<b><u>\$ 29,006</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 457,514</u></b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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

	Governmental Funds			Totals
	General	Liquid Fuels Fund	Hydrant and Light Fund	
<b>Revenues</b>				
Real Estate Taxes	\$ 216,227	\$	\$ 36,183	\$ 252,410
Local Enabling Taxes	262,770			262,770
Licenses and Permits	23,374			23,374
Fines and Forfeits	1,959			1,959
Interest and Rents	52,250	46		52,296
Intergovernmental Revenues	284,256	58,385		342,641
Departmental Earnings	15,413			15,413
Miscellaneous	2,781	500		3,281
Total Revenues	<u>859,030</u>	<u>58,931</u>	<u>36,183</u>	<u>954,144</u>
<b>Expenditures</b>				
General Government	112,975			112,975
Public Safety	386,219		-	386,219
Health and Sanitation	2,684			2,684
Highways and Streets	159,319	102,203	-	261,522
Public Works	843			843
Culture and Recreation	55,377			55,377
Employee Benefits, Insurance, and Miscellaneous	107,278			107,278
Debt Service				
Principal and Interest	25,287			25,287
Total Expenditures	<u>849,982</u>	<u>102,203</u>	<u>-</u>	<u>952,185</u>
Excess (Deficiency) of Revenues Over Expenditures	9,048	(43,272)	36,183	1,959
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	49,477			49,477
Transfers to Other Funds			(49,477)	(49,477)
Total Other Financing Sources (Uses)	<u>49,477</u>		<u>(49,477)</u>	
Net Change in Fund Balances	58,525	(43,272)	(13,294)	1,959
Fund Balances - Beginning	<u>369,983</u>	<u>72,278</u>	<u>13,294</u>	<u>455,555</u>
Fund Balances - Ending	<u>\$ 428,508</u>	<u>\$ 29,006</u>	<u>\$ -</u>	<u>\$ 457,514</u>

BOROUGH OF EVANS CITY  
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
 BUDGET VS ACTUAL - GENERAL FUND - SUPPLEMENTAL INFORMATION  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under) Budget - Final
<b>Revenues</b>				
Real Estate Taxes	\$ 261,000	\$ 261,000	\$ 216,227	\$ (44,773)
Local Enabling Taxes	240,550	240,550	262,770	22,220
Licenses and Permits	28,025	28,025	23,374	(4,651)
Fines and Forfeits	1,000	1,000	1,959	959
Interest and Rents	63,237	63,237	52,250	(10,987)
Intergovernmental Revenues	250,871	250,871	284,256	33,385
Departmental Earnings	19,242	19,242	15,413	(3,829)
Miscellaneous	10,000	10,000	2,781	(7,219)
Total Revenues	<u>873,925</u>	<u>873,925</u>	<u>859,030</u>	<u>(14,895)</u>
<b>Expenditures</b>				
General Government	114,757	114,757	112,975	(1,782)
Public Safety	374,837	374,837	386,219	11,382
Health and Sanitation	1,300	1,300	2,684	1,384
Highways and Streets	186,850	186,850	159,319	(27,531)
Public Works	24,800	24,800	843	(23,957)
Culture and Recreation	17,000	17,000	55,377	38,377
Employee Benefits, Insurance, and Miscellaneous	157,049	157,049	107,278	(49,771)
Debt Service				
Principal and Interest			25,287	25,287
Total Expenditures	<u>876,593</u>	<u>876,593</u>	<u>849,982</u>	<u>(26,611)</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,668)	(2,668)	9,048	11,716
<b>Other Financing Sources (Uses)</b>				
Sales of Fixed Assets	14,000	14,000		(14,000)
Transfers from Other Funds			49,477	49,477
Transfers to Other Funds				
Total Other Financing Sources & (Uses)	<u>14,000</u>	<u>14,000</u>	<u>49,477</u>	<u>35,477</u>
Net Change in Fund Balances	11,332	11,332	58,525	47,193
Fund Balances - Beginning	<u>369,983</u>	<u>369,983</u>	<u>369,983</u>	
Fund Balances - Ending	<u>\$ 381,315</u>	<u>\$ 381,315</u>	<u>\$ 428,508</u>	<u>\$ 47,193</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

BOROUGH OF EVANS CITY  
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
DECEMBER 31, 2019

	Pension Trust Fund
	Non-Uniform
ASSETS	
Cash and Cash Equivalents	\$ 6,661
Investments	121,878
Other receivables	5,231
TOTAL ASSETS	\$ 133,770
LIABILITIES	
Accounts Payable	\$ -
Total Liabilities	
NET POSITION	
Unrestricted	133,770
Total Net Position	133,770
TOTAL LIABILITIES AND NET POSITION	\$ 133,770

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

BOROUGH OF EVANS CITY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Pension Trust Funds
	Non-Uniform
Additions	
Investment Earnings	\$ 21,381
Contributions	5,231
Total Additions	26,612
Deductions	
Distributions	166,375
Other Deductions	1,509
Total Deductions	167,884
Changes in Net Position	(141,272)
Net Position - Beginning of Year	275,042
Net Position - End of Year	\$ 133,770

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

# Evans City Borough

## Notes to the Basic Financial Statements

### Year Ended December 31, 2019

#### Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Evans City Borough conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

##### **A. Reporting Entity**

The Borough is a primary government organized within the laws of the Commonwealth of Pennsylvania. The Borough is governed by a five member elected Council. It has the power of taxation and the ability to incur long term debt.

In evaluating the Borough as a primary government in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," management has addressed all potential component units. Consistent with this Statement, the criteria used by the Borough to evaluate possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. Upon review of this criteria, the Borough determined that there were no potential component units that met the criteria for inclusion in the reporting entity. There is one potential component unit that was not included as part of the reporting entity, The Evans City Water and Sewer Authority. The Water and Sewer Authority was excluded because the Authority exercises significant control over its own operations.

##### **B. Basis of Presentation**

As discussed in Note 1E, the governmental financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The Borough's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

##### **1. Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Borough at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a service program or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants

and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Borough.

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts that are reported as interfund activity and balances are eliminated.

## **2. Fund Financial Statements**

During the fiscal year, the Borough segregates transactions related to certain Borough functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Borough at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

### **C. Fund Accounting**

The Borough uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Borough has two categories of funds, governmental and fiduciary.

#### **1. Governmental Funds**

Governmental funds are those through which most governmental functions of the Borough are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The General Fund and the State Liquid Fuels Highway Aid Fund are the Borough's major governmental funds.

**General Fund** – The General Fund is the general operating fund of the Borough. It is used to account for all financial resources, except for those required to be accounted for in another fund.

**State Liquid Fuels Highway Aid Fund** – This special revenue fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Liquid Fuels Highway Aid Fund accounts for monies received from the Commonwealth of Pennsylvania for roads.

The other governmental fund of the Borough, the Hydrant and Light Fund, is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

#### **2. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private

purpose trust funds and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are not available to support the Borough's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Borough maintains two pension trust funds.

### ***Trust Funds***

Pension Trust Fund - Non-uniform Pension Fund – This is a trust fund established to account for revenues and pension expenditures to the Borough's non-uniformed defined contribution pension plan.

### **D. Measurement Focus**

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

In the fund financial statements, all governmental funds utilize a “current financial resources” measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statement presents 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.

### **E. Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modification to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables and short-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Borough utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures

are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

## **F. Financial Position:**

### **1. Cash and Cash Equivalents**

For the purpose of financial reporting, cash and cash equivalents include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

### **2. Investments**

Investments classified in the financial statements consist entirely of either investments, signifying that all are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Borough's name; or pooled investment funds which cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. Investments are stated at fair value.

### **3. Due From Other Funds or Governments**

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements as a modification to the cash basis of accounting.

### **4. Capital Assets**

The Borough's modified cash basis of accounting reports capital assets arising from cash transaction or events acquired for use in governmental-wide financial statements and in governmental fund operations are accounted for as capital outlay expenditures upon acquisition.

### **5. Long-Term Debt**

Long-term debt arising from cash transaction or events is not reported as liabilities in the government-wide and in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures.

## **6. Net Position/Fund Balance Classification**

### ***Government-Wide Statements***

Net position is classified and displayed in three components:

- Net investment in capital assets – consists of capital assets, included restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisitions, construction, or improvements of those assets and adjustments for any deferred inflows and outflows of resources attributable to capital assets and related debt.
- Restricted – consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislations.
- Unrestricted – net amount of assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets for the restricted component of net position.

It is the Borough's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### ***Fund Balances***

The difference in the amount of assets plus deferred outflows less liabilities and deferred inflows of governmental funds is reported as fund balances and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

- Non-spendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as non-spendable at December 31, 2019 by the Borough are non-spendable in form.
- Restricted – includes amounts that are restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to formal action taken by the Board of Supervisors, the Borough's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Council.
- Assigned – includes amounts that the Borough intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the Administration and/or the Council.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Borough considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Borough considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Borough Council has provided otherwise in its commitment or assignment actions.

Fund balances in the Borough's major funds are \$428,508 for the general fund, of which \$74,882 is nonspendable for prepaid expenditures and \$353,626 is unassigned. In addition, \$29,006 is assigned to highways in the liquid fuels fund.

The Borough has no formal minimum fund balance policies or any formal stabilization arrangements in place.

### **G. Revenues, Expenditures and Expenses**

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Borough's taxpayers are reported as program revenues. The Borough has the following program revenues in each activity:

*Public Safety* – Parking permits and meter charges. Foreign fire insurance distribution.

*Highways and Streets* – Commercial vehicle and gasoline excise tax shared by the State, recycling grants, street charges.

*Employee Benefits – State pension aid.*

All other governmental revenues are reported as general revenues. All taxes are classed as general revenue even if restricted for a specific purpose.

#### **H. Budgets and Budgetary Accounting**

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

Prior to December 31, the budget is legally enacted through passage of a resolution.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

The Borough is not permitted to amend the budget during the year to change the original appropriation. The control level at which the budget must report is function and object.

The General Fund is the only fund for which a budget is required to be adopted.

At December 31st of each year, appropriations lapse and may not be carried forward.

Encumbrances are utilized to the extent necessary for the Borough to maintain proper control over the budget. Open encumbrances at year-end lapse and are reappropriated in the next year's budget.

#### **I. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **J. Interfund Receivables/Payables**

During the course of operations, transactions sometime occur between individual funds for goods provided or services rendered. These receivables and payables, to the extent they exist, are classified as "Interfund Receivables" or "Interfund Payables" on the balance sheet.

#### **K. Subsequent Events**

The Borough evaluated subsequent events for recognition and disclosure through November 2, 2020, the date the financial statements were available to be issued. The Borough's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain.

## Note 2 – Cash and Investments

### **Deposits**

Below is a summary of the Borough's deposits which are insured by the Federal Depository Insurance Company, and those which are not insured or collateralized in the Borough's name, but collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the financial institution to pool collateral for all government deposits and have the collateral held by an approved custodian in the institution's name.

	<u>FDIC</u> <u>Insured</u>	<u>Pooled</u> <u>Collateral</u>	<u>Bank</u> <u>Balance</u>	<u>Carrying</u> <u>Amount</u>
Cash and Deposits	<u>\$ 250,000</u>	<u>\$ 245,847</u>	<u>\$ 495,847</u>	<u>\$ 389,293</u>

### **Investments**

The Borough's investments at December 31, 2019 consist of:

	<u>Carrying</u> <u>Amount</u>	<u>Fair Value</u>
<u>Non Uniform Pension Participant Directed</u> <u>Accounts</u>		
LPL Financial	<u>\$ 121,878</u>	<u>\$ 121,878</u>
Total	<u>\$ 121,878</u>	<u>\$ 121,878</u>

The Borough Council has designated LPL Financial as custodial and trustee of Evans City Borough's non-uniformed retirement assets. When applicable, the Borough measures investments at fair value. The fair value measurement guidelines, set forth by generally accepted accounting principles, recognize a three-tiered fair value hierarchy as follows:

- Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure the fair value in that particular market.
- Level 2 inputs: The categorization of an asset/liability as Level 1 requires that it is traded in an active market. If an instrument is not traded in an active market, it may fall to Level 2. Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1.
- Level 3 inputs: Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

## LPL Financial

For the portion of Borough pension assets invested with LPL Financial, the fair value measurements have been reported in the quarterly participant account report provided to the Borough by LPL Financial. LPL Financial measures and records its investments at fair market value, unless otherwise stated by the issuer of the investment.

At December 31, 2019, the following table reflects the Borough investments held by LPL Financial:

FAIR VALUE MEASUREMENTS USING INVESTMENTS BY FAIR VALUE LEVEL	2019	Level 1	Level 2	Level 3
Equity Investments	\$ 13,212	\$ 13,212		
Mutual Funds	108,666	108,666		
<b>Total investments by fair value level</b>	<b>121,878</b>	<b>121,878</b>		

## Investment Risks

*Custodial Credit Risk* - Custodial credit risk is the risk of loss resulting from the failure of the custodian such that Nationwide Investments would not be able to recover the value of its investments or collateral securities in the possession of the custodian. The Borough is permitted to invest funds consistent with sound business practices in the following types of investments, certain money market mutual funds, and deposit accounts:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Act 20, a Pennsylvania law enacted in June of 1995, expands the allowable investment vehicles to include certain money market mutual funds rated as "AAA" whose investments are limited to those mentioned in the previous paragraph.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

For the portion of borough pension assets invested with LPL Financial, because the investment securities are uninsured, unregistered, and in the possession of the counterparty or its safekeeping department, the investment securities are subject to custodial credit risk.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The Township does not have a formal investment policy

that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Concentration of Credit Risk* – Credit risk concentration is the risk of loss attributed to investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represented 5 percent or more of the plan’s net position. The Borough places no limit on the amount it may invest in any one issue.

The portion of Borough pension assets invested with LPL Financial had eleven single issuers that exceed 5 percent of total net position at December 31, 2019.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Investments in LPL Financial could be subject to foreign currency risk.

Note 3 – Property Taxes

The Borough bills and collects its own property taxes through a locally elected tax collector. Property taxes attach as an enforceable lien on property. Taxes are levied on March 1 and are payable at discount until April 30 or at face value in May and June. The tax levy for 2019 was based on adjusted assessed values on January 1, 2019 of \$10,162,096. The Borough tax rate for the year ended December 31, 2019 is 2.5 mills as levied by the Borough.

Note 4 – Changes in Capital Assets

The Borough does not maintain a register of general fixed assets for its governmental activities in accordance with Generally Accepted Accounting Principles.

Note 5 – General Long-Term Debt

The following is a summary of note and bond transactions of the Borough for the year ended December 31, 2019. Due to the use of the modified cash basis of accounting, long-term liabilities in governmental activities are not reflected in the Borough’s financial statements.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds, loans & leases payable					
General Obligation Notes	\$ 79,227	\$ -	\$ (23,162)	\$ 56,065	\$ 11,542
Total bonds, loans and leases payable	79,227	-	(23,162)	56,065	11,542
Total Long-Term Liabilities	<u>\$ 79,227</u>	<u>\$ -</u>	<u>\$ (23,162)</u>	<u>\$ 56,065</u>	<u>\$ 11,542</u>

During 2014, the Borough entered into a note payable with Northwest Savings Bank for the purpose of refinancing the former PennVest loan that was in the name of the Evans City Water and Sewer Authority. The original principal amount was \$197,000. The note was reamortized in 2019

and now requires monthly payments of \$1,102.65 with interest at the rate of 3.325% and final payment due in 2024. This note had an outstanding balance of \$56,065 as of December 31, 2019.

The amount needed to amortize all notes and lease-purchase agreements outstanding as of December 31, 2019 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 11,542	\$ 1,690	\$ 13,232
2021	11,932	1,300	13,232
2022	12,335	897	13,232
2023	12,752	480	13,232
2024	<u>7,504</u>	<u>80</u>	<u>7,584</u>
	<u>\$ 56,065</u>	<u>\$ 4,447</u>	<u>\$ 60,512</u>

### Note 6 – Pension Plans

Evans City Borough maintains one pension fund covering the Borough’s employees.

**Plan Description:** The Evans City Borough Non-Uniformed Pension Plan was converted from a defined benefit to a defined contribution pension plan. Plan assets are maintained in separate self-directed investment accounts for each participant. The assets are managed by LPL Financial. The Plan requires Borough contribution of 7.5% of each participant’s compensation. Participants are not permitted to contribute to the Plan. The Borough’s contribution for 2019 was \$5,231, but the contribution was not made by the Borough. Total payroll for 2019 was \$150,100 and covered payroll was \$53,517.

**Funding Policy:** The contribution requirement of the Borough is established and may be amended by the Borough Council. The Borough is required by Act 205 to contribute an annual contribution that is based upon the Minimum Municipal Obligation (MMO). The MMO is equal to the Plan’s required employer contribution which is a fixed percentage of covered payroll. The Commonwealth of Pennsylvania provides an allocation of funds that must be used first for pension funding. Any excess of this funding may be used to fund other plans of the Borough. Any financial requirement established by the MMO that exceeds state and member contributions must be funded by the Borough.

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

Annual Required Contribution	\$ 5,231
Contributions made	<u>-0-</u>
Increase (decrease) in net pension Obligation	<u>\$ 5,231</u>

### Five Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2019	\$ 5,231	-0-	\$ 5,231
2018	13,530	100.0%	\$ -0-
2017	10,917	100.0%	\$ -0-
2016	18,192	100.0%	\$ -0-
2015	20,540	100.0%	\$ -0-

Summary financial information as of December 31, 2019 is as follows:

Total Assets	\$ 133,770
Total Liabilities	-0-
Net Position	<u>\$ 133,770</u>
Total Additions	\$ 26,612
Total Deductions	<u>(167,884)</u>
Change in Net Position	<u>\$ (141,272)</u>

The Borough maintains an IRC Section 457(B) deferred compensation plan for its employees. Eligible employees may elect to defer a portion of their salary which is deposited into an investment account maintained and directed by the employee. The Borough does not contribute to this plan nor are the plan assets included in the Borough's financial statements.

#### Note 7 – Contingent Liabilities

The Evans City Borough participates in grant programs sponsored by other governments. The programs are subject to program compliance audits by the grantor agencies or their representatives. The audits of some of these programs for and including the year ended December 31, 2019 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 to be immaterial.

#### Note 8 – Interfund Balances

There were no Individual fund interfund receivable and payable balances at December 31, 2019.

There were the following fund level transfers made during the year ended December 31, 2019.

<u>Transfer Out</u>		<u>Transfer In</u>	
Hydrant and Light	<u>\$ 49,477</u>	General Fund	<u>\$ 49,477</u>
Total	<u>\$ 49,477</u>		<u>\$ 49,477</u>

The above transfer to the General Fund represents light and hydrant taxes collected and transferred to the General Fund to cover expenses paid for street lights and fire hydrants.

### Note 9 – Risk Management and Litigation

The Borough is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets: errors and omissions; injuries to employees; and natural disasters. The Borough manages most risk through the general fund with the purchase of commercial insurance coverage. There has been no reduction in insurance coverage from the previous year, nor have amounts of settlements exceeded coverage levels in the past three years.

The Borough estimates that the amount of actual or potential claims against the Borough as of December 31, 2019, will not materially affect the financial condition of the Borough and will be covered under the present insurance coverage.

### Note 10 – Sale of Assets

During 2011, an agreement was signed between Evans City Borough and the Evans City Water and Sewer Authority in which the Borough would sell certain water and sewer assets to the Authority. This transfer of assets has been recorded effective January 1, 2013 and was shown as a transfer to the authority on the financial statements. The total purchase price was set at \$5,857,920 and requires 360 monthly payments from the Authority which were initially set at \$16,272.11 per month. These payments are shown as intergovernmental revenues and are reflected in the Borough's general fund.

