

## PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 9, 2019

**NEW ISSUE - BOOK ENTRY ONLY**

**RATING: S&P Global Ratings: (“AA”) (Stable Outlook)**  
**(See “RATING” herein)**

*In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed, assuming continuing compliance with the requirements of federal tax laws. Interest on the Bonds is not a specific preference item for purposes of individual federal alternative minimum tax. Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.*

*The Authority has designated the Bonds as “qualified tax-exempt obligations” for the purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986 relating to the deductibility of interest expense by certain financial institutions. For further information relating to federal and state tax matters relating to the Bonds, see “TAX MATTERS”.*

**\$7,490,000\***

### **POTTSTOWN BOROUGH AUTHORITY** **Montgomery County, Pennsylvania** **Guaranteed Water Revenue Bonds, Series of 2019**

**Dated: Date of Delivery**

**Due: December 15, 2019; thereafter on June 15, as shown on inside cover**

**Interest Due: June 15 and December 15**

**First Interest Payment: December 15, 2019**

The Guaranteed Water Revenue Bonds, Series of 2019 (the “2019 Bonds” or the “Bonds”) in the aggregate principal amount of \$7,490,000\* will be issued in registered book-entry only form in denominations of \$5,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of the Depository Trust Company (“DTC”), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under book-entry system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See “BOOK-ENTRY ONLY SYSTEM” herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein. The principal of the Bonds will be paid to the registered owners or assigns, when due, upon presentation and surrender of the Bonds to U.S. Bank, National Association, (the “Trustee”), acting as Trustee and Paying Agent, at its corporate trust office in Philadelphia, Pennsylvania. Interest on the Bonds is payable initially on December 15, 2019, and thereafter, semiannually on June 15 and December 15 of each year, until the principal sum thereof is paid. Payment of interest on the Bonds will be made by check drawn on the Paying Agent mailed to the registered owners of the Bonds as of the Record Date (see “The Bonds” herein).

**The Bonds are subject to redemption prior to maturity as described herein.**

The Bonds are issued pursuant to and secured by the Trust Indenture dated as of June 15, 1995 between the Pottstown Borough Authority (the “Authority”) and U.S. Bank National Association, as successor trustee (the “Trustee”), as amended and supplemented heretofore and by the Ninth Supplemental Indenture dated as of [November 14, 2019] (as so supplemented and amended, the “Indenture”). As additional security, the Borough of Pottstown, Montgomery County, Pennsylvania (the “Borough”), pursuant to the Guaranty Agreement (the “Guaranty Agreement”), dated as of [November 14, 2019], between the Borough and the Authority, has unconditionally guaranteed the payment of the full amount of all principal and interest on the Bonds when due and for such payment has pledged its full faith, credit and taxing power.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN REVENUES FROM THE WATER SYSTEM AND ARE NOT A DEBT OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT TO THE EXTENT OF THE GUARANTY OF THE BOROUGH). NEITHER THE CREDIT NOR THE TAXING POWER OF MONTGOMERY COUNTY OR THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT TO THE EXTENT OF THE GUARANTY OF THE BOROUGH) IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

The proceeds of the Bonds will be used for the following purposes: (1) to currently refund the Authority’s Water Revenue Bond, Series of 2007, currently outstanding in the aggregate principal amount of \$2,239,255 (the “2007 Bond”); (2) to currently refund the Authority’s Guaranteed Water Revenue Bonds, Series of 2012, currently outstanding in the aggregate principal amount of \$4,995,000 (the “2012 Bonds”); and (3) to pay costs and expenses of issuing the Bonds.

The Bonds will be issued under the Indenture between the Authority and the Trustee as described herein. The Bonds are and will be equally and ratably secured by the assignment and pledge of the Authority’s Receipts and Revenues from the Water System as defined in the Indenture and from other available moneys of the Authority. The Borough has guaranteed the full and timely payment of principal and interest on the Bonds and pledged for such payment its full faith, credit and taxing power. The Bonds are not obligations of the Commonwealth of Pennsylvania or of any other political subdivision thereof other than the Borough under the Guaranty described herein.

#### **MATURITIES, AMOUNTS, RATES AND PRICES** **(See Inside Cover)**

*The Bonds are offered when, as and if issued by the Authority and received by the Underwriter and are subject to the approval of certain legal matters by Lamb McErlane PC, West Chester, Pennsylvania, Bond Counsel. Certain legal matters will be passed on for the Authority by its Solicitor, Lamb McErlane PC, West Chester, Pennsylvania and for the Borough by Wolf, Baldwin & Associates, P.C., Pottstown, Pennsylvania. It is expected that the Bonds will be available for delivery in New York, New York on or about November 14, 2019.*

**PFM Financial Advisors LLC**  
**Financial Advisor to the Authority**

Dated:

\*Estimated, subject to change.

**\$7,490,000\***  
**POTTSTOWN BOROUGH AUTHORITY**  
**Montgomery County, Pennsylvania**  
**Guaranteed Water Revenue Bonds, Series of 2019**

**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES**

**Dated: Date of Delivery**

**Due: December 15, 2019 and thereafter on June 15, see below**

**Interest Due: June 15 and December 15**

**First Interest Payment: December 15, 2019**

<b>Maturity Date (December 15) Year</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Initial Offering Yields</b>	<b>CUSIP Numbers<sup>(1)</sup></b>
2019				

  

<b>Maturity Date (June 15) Year</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Initial Offering Yields</b>	<b>CUSIP Numbers<sup>(1)</sup></b>
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				

<sup>(1)</sup>The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Township or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the Township nor the Underwriter has agreed to, and there is no duty or obligation to, update this Preliminary Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

\*Estimated, subject to change.

# **POTTSTOWN BOROUGH AUTHORITY**

## **Montgomery County, Pennsylvania**

### **AUTHORITY BOARD**

<b><u>Name</u></b>	<b><u>Office</u></b>	<b><u>Term Expiration</u></b>
Jeff Chomnuk	Chairman	12/31/2021
Aram Ecker	Vice Chairman	12/31/2023
Thomas Carroll	Secretary	12/31/2022
H. Michael Benner	Treasurer	12/31/2019
David Renn	Asst. Secretary/Treasurer	12/31/2020

### **CONSULTING ENGINEERS**

HERBERT, ROWLAND & GRUBIC, INC.  
Harrisburg, Pennsylvania

### **AUTHORITY SOLICITOR**

LAMB MCERLANE PC  
West Chester, Pennsylvania

### **BOND COUNSEL**

LAMB MCERLANE PC  
West Chester, Pennsylvania

### **FINANCIAL ADVISOR**

PFM FINANCIAL ADVISORS LLC  
Malvern, Pennsylvania

### **TRUSTEE**

U.S. BANK NATIONAL ASSOCIATION  
Philadelphia, Pennsylvania

### **UNDERWRITER**

### **AUTHORITY MAILING ADDRESS**

100 East High Street  
Pottstown, Pennsylvania 19464

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriter to give any information or make any representations with respect to the Bonds other than those contained in this Preliminary Official Statement, and if given or made, such other information or representations must not be relied upon. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale prior to registration or qualification of the Bonds pursuant to the applicable securities laws of such jurisdiction. The information set forth herein has been obtained from the Authority and other sources that are deemed to be reliable, but the Underwriter does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation by the Underwriter. Any statements herein involving matters of opinion or forecasts of the occurrence of future events or circumstances, whether or not expressly so stated, are intended as such and not as representation of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Preliminary Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the affairs of the Authority since the date hereof, or the dates specified herein.

The Underwriter has provided the following sentence for inclusion in this Preliminary Official Statement. The Underwriter has reviewed the information in this Preliminary Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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This Table of Contents is for convenience of reference only and does not list all of the subjects in this Preliminary Official Statement. In all instances, reference should be made to the complete Preliminary Official Statement to determine the subjects discussed in it.

The order and placement of material in this Preliminary Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Preliminary Official Statement, including the Appendices, must be considered in its entirety.

**PRELIMINARY OFFICIAL STATEMENT**  
**for**  
**\$7,490,000\***  
**POTTSTOWN BOROUGH AUTHORITY**  
**Montgomery County, Pennsylvania**  
**Guaranteed Water Revenue Bonds, Series of 2019**

**INTRODUCTION**

The purpose of this Preliminary Official Statement, including the cover page and attached Appendices, is to set forth information concerning the Pottstown Borough Authority (the “Authority”) and the \$7,490,000\* Guaranteed Water Revenue Bonds, Series of 2019 (the “2019 Bonds” or “Bonds”) of the Authority to be issued pursuant to and secured by the Authority’s Trust Indenture dated June 15, 1995, (the “Original Indenture”), as amended and supplemented heretofore and by the Ninth Supplemental Indenture dated as of November 14, 2019, (as so supplemented and amended, the “Indenture”), with U.S. Bank National Association, as trustee (the “Trustee”).

The proceeds of the Bonds will be used for the following purposes: (1) to currently refund the Authority’s Guaranteed Water Revenue Bond, Series of 2007, currently outstanding in the principal amount of \$2,239,255 (the “2007 Bond”); (2) to currently refund the Authority’s Guaranteed Water Revenue Bonds, Series of 2012, currently outstanding in the aggregate principal amount of \$4,995,000 (the “2012 Bonds”) (the 2007 Bond together with the 2012 Bonds, the “Refunded Bonds”); and (3) to pay costs and expenses of issuing the Bonds.

**THE AUTHORITY**

The Authority is a municipality authority incorporated under the Municipality Authorities Act, 53 Pa. C.S. Chapter 56 (the “Act”) of the Commonwealth of Pennsylvania (the “Commonwealth”) and pursuant to appropriate legal action of the Council of the Borough. The Authority was incorporated on January 4, 1951 and is presently duly existing under the constitution and laws of the Commonwealth. On May 26, 1988, the term of the Authority was extended to March 1, 2038. With respect to the Water System, the Authority and the Borough have entered into a Management Agreement dated as of November 15, 1990, as amended and supplemented (the “Management Agreement”) pursuant to which the Authority is responsible for the operation of the Water System while the Borough acts as agent for the Authority for the purpose of operating and maintaining the Water System, including the collection of Receipts and Revenues of the Water System. See “DESCRIPTION OF THE WATER SYSTEM” below.

Bonds issued to finance the Water System are separately secured from the Authority’s Sewer System (the “Sewer System”) and are issued under separate indentures. The Receipts and Revenues derived from operation of the Sewer System are not pledged to or available to support the Water System or the payment of debt service on the 2019 Bonds or any other bonds issued to finance the Water System. Similarly, the revenues derived from operation of the Sewer System have not been pledged in support of nor are available to pay debt service on any bonds issued by the Authority with respect to the Sewer System.

**PREVIOUS AUTHORITY WATER FINANCINGS**

On December 28, 2007, the Authority issued its \$4,177,250 Water Revenue Bond – Series of 2007 (the “2007 Bond”). The proceeds of the 2007 Bond were used to undertake certain capital projects generally involving improvements to the Authority’s Water System. The amount of the 2007 Bond currently outstanding is \$2,239,255. Proceeds of the 2019 Bonds will be used to refund all outstanding 2007 Bond.

On May 15, 2012, the Authority issued \$5,395,000 Guaranteed Water Revenue Bonds – Series of 2012 (the “2012 Bonds”). The proceeds of the 2012 Bonds were used to advance refund certain of the Authority’s outstanding Guaranteed Water Revenue Bonds Series AA of 2009 (the “2009AA Bonds”). The amount of the 2012 Bonds currently outstanding is \$4,995,000. Proceeds of the 2019 Bonds will be used to refund the outstanding 2012 Bonds.

On August 29, 2016, the Authority issued \$4,855,000 Guaranteed Water Revenue Bonds, Series A of 2016 (the “2016A Bonds”). The proceeds of the 2016A Bonds were used to currently refund all of the Authority’s outstanding 2009AA Bonds. The amount of the 2016A Bonds currently outstanding is \$1,320,000.

The Authority has never defaulted on the payment of interest on or principal of any debt obligation.

## PLAN OF FINANCE

Subject to completion of, and delivery for, the Bonds, the proceeds of the Bonds will be used to currently refund the Refunded Bonds. The Refunded Bonds will be called for optional redemption at a redemption price of 100% of the principal amount plus accrued interest, pursuant to the optional redemption provisions applicable to the Refunded Bonds contemporaneously with the issuance of the Bonds.

## SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be used as follows:

<u>Sources of Funds</u>	<u>Total</u>
Par Amount of Bonds	
Plus: Net Original Issue Premium	
Total Sources	<hr/>
<u>Uses of Funds</u>	
Amount Required to Redeem 2007 Bond	
Amount Required to Redeem 2012 Bonds	
Cost of Issuance (1)	
Miscellaneous	
Total Uses	<hr/>

(1) Consists of Underwriter's discount; legal fees; Financial Advisor's fee; rating fee; CUSIP fees; printing of Preliminary Official Statement and Final Preliminary Official Statement; Trustee and miscellaneous fees.

## THE BONDS

### Description

The Bonds will be issued only in fully registered book-entry-only form in the denomination of \$5,000 or integral multiples thereof. The Bonds will be issued as one fully registered Bond for each maturity of the Bonds, in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. The Bonds will be dated the date of delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover of this Preliminary Official Statement. Interest on the Bonds will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 2019 (each an "Interest Payment date") until the principal sum thereof is paid. Interest will be calculated on the basis of a 360-day year and 30-day months.

### Payment of Principal and Interest

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal of, redemption premium, if any, and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the Authority with respect to, and to the extent of, principal, redemption premium, if any, and interest so paid.

If the use of the Book-Entry Only System for the Bonds is discontinued for any reason, Bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal, redemption premium, if any, and interest on the Bonds shall be made as described in the following paragraphs.

The principal of the Bonds, when due upon maturity or upon any earlier redemption, will be paid to the registered owners of the Bonds, or registered assigns, upon surrender of the Bonds to the Trustee at its specified corporate trust office, currently in Philadelphia, Pennsylvania (or to any successor Trustee at its designated office(s)).

Interest on the Bonds will be paid on each Interest Payment Date by check mailed to the person in whose name the Bond is registered on the registration books of the Authority maintained by the Trustee, as bond registrar, at the address appearing thereon at the close of business on the fifteenth day (whether or not a day on which the Trustee is open for

business) next preceding such Interest Payment Date (the “Regular Record Date”). Any such interest not so timely paid or duly provided for will cease to be payable to the person who is the registered owner of the Bonds as of the Regular Record Date, and will be payable to the person who is the registered owner of the Bond at the close of business on a Special Record Date for the payment of such defaulted interest. Such Special Record Date will be fixed by the Trustee whenever monies become available for payment of the defaulted interest, and notice of the Special Record Date and payment date for such interest will be given by first class mail to the registered owners of the Bonds not less than ten days prior to the Special Record Date. Such notice will be mailed to the persons in whose names the Bonds are registered at the close of business on the fifth day preceding the date of mailing.

If the date for payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth or in the jurisdiction in which the principal corporate trust office of the Trustee is located are authorized or directed by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or directed to close, and payment on such date shall have the same force and effect as if made on the nominal date of such payment.

### **Transfer, Exchange and Registration of Bonds**

Subject to the provisions described below under “BOOK-ENTRY-ONLY SYSTEM” herein, Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Trustee, accompanied by a written instrument or instruments in form, with instructions and with guaranty of signature satisfactory to the Trustee, duly executed by the registered owner of such Bonds or his attorney-in-fact or legal representative. The Trustee shall enter any transfer of ownership of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered Bond or Bonds of authorized denominations of the same maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The Authority and the Trustee may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes and the Authority and the Trustee shall not be affected by any notice to the contrary.

The Trustee will not be required: (i) to issue, transfer or exchange any of the Bonds during a period beginning at the close of business on the fifth day next preceding the day of selection of Bonds to be redeemed and ending at the close of business on the day on which such notice is given, or (ii) to transfer or exchange any Bond selected for redemption in whole or in part.

Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate.

## **REDEMPTION PROVISIONS**

### **Mandatory Redemption**

The Bonds stated to mature on June 15, \_\_\_\_\_, are subject to redemption prior to maturity as required by the Resolution, in the amounts and on June 15 of the years shown below, from moneys in the Mandatory Sinking Fund created pursuant to the Resolution, upon payment of the principal amount thereof together with interest accrued to the date fixed for redemption.

*Bonds stated to mature June 15, \_\_\_\_\_:*

\_\_\_\_\_  
\*Final Maturity

In lieu of such Mandatory Redemption, the Paying Agent, on behalf of the Authority, may purchase from money in the Sinking Fund, at a price not to exceed the principal amount plus accrued interest, or the Authority may tender to the Paying Agent, all or part of the Bonds subject to being drawn for redemption in any such year.

### **Optional Redemption**

The Bonds stated to mature on or after June 15, 2025, shall be subject to redemption prior to maturity, at the option of the Authority, on December 15, 2024, or on any date thereafter, as a whole, or from time to time, in part (and if in part, in any order of maturity or portion of a maturity as selected by the Authority and within a maturity by lot), in either case upon payment of a redemption price of 100% of the principal amount of such Bonds redeemed, together with accrued interest to the redemption date.

### **Notice of Redemption**

Any redemption of Bonds shall be upon notice effected by mailing a copy of the redemption notice by first class mail, such notice to be deposited in first class mail not more than sixty days nor less than thirty days prior to the date fixed for redemption, addressed to the registered owners of Bonds to be redeemed at the addresses shown on the registration books kept by the Paying Agent as of the date the Bonds are selected for redemption; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

If funds for the redemption are not on deposit with the Paying Agent when notice of redemption is given, the notice may state that it is conditional on sufficient funds being on deposit on the date fixed for redemption, and if not on deposit on that date, the notice of redemption shall be of no force or effect.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and accrued interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds and portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds shall have no rights with respect to such Bonds, except to receive payment of the principal of and accrued interest on such Bonds to the date fixed for redemption.

### **Manner of Redemption**

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, such Bond shall be treated as representing that number of Bonds which is obtained by dividing the principal amount thereof by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the event of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of the same series, of authorized denominations and in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth are authorized by law or executive order to close, then the payment of such principal, premium, if any, and interest upon such redemption need not be made on such date, but may be made on the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close with the same force and effect as if made on the nominal date of redemption.

### **BOOK-ENTRY ONLY SYSTEM**

*The information in this section has been obtained from materials provided by DTC for such purpose. The Authority (herein referred to as the “Issuer”) and the Underwriter do not guaranty the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority or the Underwriter.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or in such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for the Bonds of each maturity will be issued in principal amount equal to the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries, that DTC's participants (the “Direct Participants”)



deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating, "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. ***Beneficial Owners will not receive certificates representing their ownership interests in the Bonds except in the event that use of the book-entry system for the Bonds is discontinued.***

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners to Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of the principal of and interest on the Bonds and, if applicable, any premium payable upon redemption thereof, will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest on Bonds and, if applicable, any premium payable upon redemption thereof to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct

Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue its services as a securities depository for the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

So long as a nominee of DTC is the registered owner of the Bonds, references herein to the Bondholders or the holders or owners of the Bonds shall mean DTC and shall not mean the Beneficial Owners of the Bonds. The Issuer and the Trustee will recognize DTC or its nominee as the holder of all of the Bonds for all purposes, including the payment of the principal or redemption price of and interest on the Bonds, as well as the giving of notices and any consent or direction required or permitted to be given to or on behalf of the bondholders under the Ordinance. Neither the Issuer nor the Trustee will have any responsibility or obligation to Participants or Beneficial Owners with respect to payments or notices to bondholders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility, for the accuracy or completeness thereof.

NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE ORDINANCE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

*The Issuer and the Trustee cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Preliminary Official Statement.*

## **SECURITY FOR THE BONDS**

### **Receipts and Revenues from the Water System**

The 2019 Bonds and the 2016A Bonds and any Additional Bonds, as such phrase is defined under the Indenture, issued in the future, are secured under the Indenture by the assignment and pledge of the Receipts and Revenues from the Water System, as such phrase is defined in the Indenture, which include the lease rentals payable by the Borough under the Lease (herein described).

### **Guaranty Agreement**

The 2019 Bonds are being issued with an accompanying guaranty of payment of principal and interest, when due, by the Borough. The specific provisions of the guaranty are set forth in the Guaranty Agreement. Under the covenants of the Guaranty Agreement, the Borough unconditionally guarantees for the benefit of the holders of the 2019 Water Bonds: a) the full and prompt payment of the principal of the 2019 Bonds when and as the same shall become due at the stated maturity thereof, and b) the full and prompt payment of interest on the 2019 Bonds when and as the same shall become due.

In order to insure performance of the above guaranty, the Borough covenants with such Bondholders that the Borough shall include the amounts payable in respect of the guaranty in each fiscal year in which sums are payable in its budget for that year. In the event the Authority or the Trustee shall fail to pay the principal of or interest on the 2019 Bonds, when due, the Borough shall appropriate such amounts to duly pay or cause to be paid the principal of and interest on the

2019 Bonds on the dates and in the manner stated in the 2019 Bonds. For such budgeting, appropriation and payment, the Borough pledges its full faith, credit and taxing power.

The 2019 Bonds do not pledge the credit or taxing power and are not obligations of the Commonwealth or any political subdivision thereof, except to the extent the 2019 Bonds are guaranteed by the Borough pursuant to the Guaranty Agreement.

#### **Debt Service Reserve Fund**

A Debt Service Reserve Fund has been established under the Indenture in an amount equal to the maximum annual debt service requirement on all outstanding Water Revenue Bonds issued under the Indenture on a combined basis. The Trustee, without further direction from the Authority, shall apply money in the Debt Service Reserve Fund toward payment of principal and interest from time to time becoming payable on the 2019 Bonds, and any other Bonds issued under the Indenture, to the extent the Debt Service Fund held under the Indenture at any time shall be deficient for such purpose.

#### **Limited Obligations**

*The 2019 Bonds are limited obligations of the Authority and are secured under the provisions of the Indenture and the Guaranty Agreement and are payable solely from the Receipts and Revenues from the Water System, as such phrase is defined in the Indenture. Neither the credit nor the taxing power of the United States of America, the Commonwealth of Pennsylvania or any political subdivision thereof (except the Borough pursuant to the Guaranty Agreement) is pledged to pay principal or redemption price of, and interest on, the 2019 Bonds; nor shall such bonds be deemed the obligations of the United States of America, the Commonwealth or any political subdivision thereof (except the Borough pursuant to the Guaranty Agreement). The Authority has no taxing power.*

### **THE AUTHORITY'S WATER SYSTEM**

#### **History**

The Authority, as lessor, entered into a lease of its water treatment, transmission, production, storage and distribution system (the "Water System"), with the Borough as lessee, dated as of August 1, 1963 (the "Water Lease"), under which the Authority leased the Water System to the Borough and the Borough operated and maintained the Water System and paid certain net rentals to the Authority.

Upon the issuance of revenue Bonds in 1990, the Authority provided for the payment of the debt service of all of its then outstanding bonds upon stated maturity or upon mandatory redemption prior to maturity and the Water Lease was terminated.

Under the terms of a Management Agreement between the Authority and the Borough, dated as of November 15, 1990, as amended and supplemented by a First Supplemental Management Agreement dated as of June 15, 1995 (collectively, the "Management Agreement"), the Authority is currently responsible for the operation and maintenance of the Water System, including the setting of water rates and charges to fulfill the terms of the Rate Covenant in the Indenture. Under the terms of the Management Agreement, the Borough acts as agent for the Authority for the purpose of operating and maintaining the Water System, including the collection of Receipts and Revenues of the Water System.

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The Water System was constructed in 1869 by the Pottstown Gas and Water Company. As the Borough grew in size, the lines were extended, and now there are over ninety-one miles of pipeline ranging from 6" to 24" in size. The service area of the Authority includes the following:

- All of the Borough of Pottstown;
- Stowe (a portion of West Pottsgrove Township);
- South Pottstown (a portion of North Coventry Township), as a bulk customer;
- A portion of Lower Pottsgrove adjacent to the Borough; and
- A portion of Upper Pottsgrove Township.
- A portion of Douglas Township (Berks County).

There are presently 11,803 customers of the Water System, of which 3,858 are located outside the Borough. The ratio of customers by customer class is almost identical in the Borough as in the outside communities. The largest customer class is residential, accounting for 93 percent of the customers and 79 percent of the total system revenues. The residential usage is 1.6 million gallons per day.

Commercial customers represent 5 percent of the customers and 15 percent of the revenues, accounting for usage of approximately .4 million gallons per day. Industrial customers represent 1.0 percent of the customers and 4.0 percent of the revenues of the Water System. The industrial class usage is .1 million gallons per day. The remaining customers and revenues are in the public class, accounting for less than 1 percent of the customers and approximately 4 percent of the revenues.

The Schuylkill River is the exclusive source of water supply. The intake is located in West Pottsgrove Township close to the Montgomery-Berks County line, upstream from the Borough of Pottstown. Throughout the years improvements have been made to the system including extensions of lines and upgrading of pumping and treatment facilities. Over the last 30 years, the Authority has performed major work in the following areas:

- Construction of a new filter plant with a capacity of 12 million gallons per day.
- The facility added the removal of iron and manganese for the removal of hardness in addition to the normal coagulation and filtration treatment.
- Cleaning and lining of existing water lines.
- Replaced all major valves.
- Repaired concrete in sedimentation basins.
- Installed new meters on two water distribution mains
- Enhancements to water plant security and communications.
- Inspection and painting of water tanks.

The current water capital programs are being funded from operating funds. Significant projects currently in progress include:

- Ongoing water main replacements.
- Air scour upgrade for filters to start in the latter part of 2019.

### **Upgrade and Expansion Projects**

In connection with the 1990, 1993, 1995, 2004, 2007 and 2009 borrowings, the Authority undertook a number of projects. The improvements covered under these borrowings have been completed. These projects are as follows:

#### **1990 Bond Issue:**

- Construction of booster pump station at Willow and Master Streets;
- Upgraded Evan Street Pump Station;
- Developed comprehensive plan for water system including computer modeling;
- Conducted pitometer water loss investigation and implement repairs;
- Replaced water lines in downtown Pottstown area;
- Replaced 2,000 feet of water mains.

#### **1993 Bond Issue:**

- Construction of Kepler Road Pump Station and Main;
- Pipe replacement at Adams and Mervine Streets;
- Pipe replacement at Adams and Prospect Streets;

- Replacement of the Berks Street Reservoir Cover;
- Construction of Standpipe at the Washington Hill Reservoir.

#### 1995 Bond Issue:

- Distribution improvements on High Street;
- Extension of new service to Montgomery County Community College;
- Heat tracing to water line on Grosstown Road Bridge;
- Installation of 8,000 residential water meters;
- Improvements at the Berks Street pump station;
- Construction of a new Willow Street pump station;
- Painting of Willow Street and K-Mart Tanks;
- Conversion of the electric supply source to Metropolitan Edison.

#### 2004 Bond Issue:

- Development of the 2006 master plan update, including the water model update;
- Repair of the superstructure of the raw pump station;
- Replace the flocculators at the water treatment plant;
- Water main replacement throughout the system;
- Modified loading dock;
- Construction of the Pleasant View tank;
- Contributed to the cost of the construction of the New Hanover Square Tank;
- Concrete repair at the water treatment plant.

#### 2007 Private Placement:

- Replace two of the raw water pumps at the water treatment plant;
- Replace the control valves on the finished water pumps;
- Demolition of Washington Hill Reservoir;
- New Washington Hill Reservoir;
- Replacement of water mains within the Borough and in the Townships
- Construction of bulk water fill station.

#### 2009 Bond Issue:

- undertake certain capital projects related to the Authority's Water System, including the replacement and rehabilitation of filters, the replacement of water mains and the installation of a stand-by generator

### **Customers**

#### **Historical Customer Base**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Pottstown Borough	7,867	7,903	7,924	7,937	7,950
Upper Pottsgrove Township	495	533	540	529	539
Lower Pottsgrove Township	2,083	2,084	2,085	2,079	2,119
West Pottsgrove Township	1,192	1,193	1,192	1,158	1,195
North Coventry Township*	-	-	-	-	-
Douglas Township**	-	-	-	-	-
Total Customers	11,637	11,713	11,741	11,703	11,803
Annual Increase	33	76	28	-38	100

\* The Authority's distribution system located in North Coventry Township was sold to that Township in 2002. Water is now sold to the Township on a bulk rate basis.

\*\*Douglas Township customers are included in the Borough's base and include four commercial customers and one residential customer. The residential customer is an adult community of modular homes. The Township also has 15 fire hydrants which are billed at a flat dollar fee.

## **Water Rates and Charges**

A minimum quarterly rate according to the size of the meter is charged as shown below (effective January 1, 2019).

### **A. MINIMUM CHARGES**

<b>Meter Size</b>	<b>Minimum Quarterly Charge</b>	<b>Outside Borough Quarterly Service Charge</b>
5/8"	\$43.00	\$45.00
3/4"	43.00	45.00
1"	83.00	85.00
1 1/2"	160.00	162.00
2"	237.00	240.00
3"	493.00	495.00
4"	722.00	724.00
6"	1,351.00	1,353.00
8"	2,097.00	2,099.00
10"	2,558.00	2,560.00

### **B. USAGE CHARGE**

	<b>Per CCF</b>
All Usage	\$3.20 per 100 cubic feet.

### **C. FIRE PROTECTION CHARGES** (Effective October 1, 2019)

<b>Size</b>	<b>Charge</b>
5/8"	\$80.00
3/4"	80.00
1"	100.00
1 1/2"	120.00
2"	160.00
3"	587.36
4"	780.64
6"	1,190.32
8"	1,606.64
<b>FIRE HYDRANTS</b>	<b>\$164.00</b>

### **D. BULK WATER CHARGES**

<b>Service</b>	<b>Charge</b>
Debit Card Account	\$15.00
Replacement Debit Card	20.00
Additional Debit Card	20.00
Purchase/Usage Fee	\$4.08 per 1,000 gallons
From Hydrant	\$20.00 for permit
From Hydrant purchase/usage fee	\$3.20 per 100 CCF

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**POTTSTOWN BOROUGH AUTHORITY**

**SUMMARY OF ANNUAL REVENUES AND EXPENDITURES OF THE WATER SYSTEM  
(Years Ending December 31)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>OPERATING REVENUES</b>					
Charges for Services	\$6,020,959	\$6,075,684	\$5,861,699	\$6,085,065	\$6,339,219
Royalties and other rentals	223,772	191,525	192,513	208,452	205,850
Grants and Contributions	0	22,500	5,142	0	83,500
<b>TOTAL OPERATING REVENUES</b>	<u>\$6,244,731</u>	<u>\$6,289,709</u>	<u>\$6,059,354</u>	<u>\$6,293,517</u>	<u>\$6,628,569</u>
<b>OPERATING EXPENSES</b>					
General Government	\$531,263	\$542,869	\$701,752	\$570,153	\$558,655
Public Works, water sanitation	1,934,902	2,144,760	2,589,565	2,398,519	2,576,232
Benefits and Insurance	413,800	425,576	207,965	1,072,632	1,182,060
Depreciation and amortization	1,020,747	1,058,640	1,010,916	1,025,486	1,128,749
Administrative and General	26,812	11,905	17,398	6,863	6,916
Management Fees	377,191	395,552	412,184	386,744	396,958
<b>TOTAL OPERATING EXPENSES</b>	<u>\$4,304,715</u>	<u>\$4,579,302</u>	<u>\$4,939,780</u>	<u>\$5,460,397</u>	<u>\$5,849,570</u>
<b>OPERATING INCOME (LOSS)</b>	\$1,940,016	\$1,710,407	\$1,119,574	\$833,120	\$778,999
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment Earnings	\$8,563	\$6,609	\$46,876	\$56,212	\$76,154
Unrealized gains on investments	0	(22,900)	(11,020)	10,879	6,643
Interest Expense	(510,157)	(477,289)	(386,341)	(376,275)	(355,245)
Bond issue costs	0	0	(49,662)		
Transfer to Borough Capital Fund	0	(105,032)	95,227	(23,173)	
Contribution from Authority water Fund	0	(35,286)	(58,317)		
Contribution to Borough Garage Project	(7,832)	(100,000)	(100,000)	(100,000)	(100,000)
Gain on Disposal of Capital Assets	2,800	0	2,001		
Miscellaneous	0	0			
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(\$506,626)</u>	<u>(\$733,898)</u>	<u>(\$461,236)</u>	<u>(\$432,357)</u>	<u>(\$372,448)</u>
<b>CHANGE IN NET ASSETS</b>	\$1,433,390	\$976,509	\$658,338	\$400,763	\$406,551
<b>NET ASSETS BEGINNING OF YEAR</b>	\$20,785,587	\$22,218,977	\$22,176,445	* \$22,834,783	\$23,235,546
<b>NET ASSETS END OF YEAR</b>	\$22,218,977	\$23,195,486	\$22,834,783	\$23,235,546	\$23,642,097

\*Restatement.

Source: Authority Audits.

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## BOROUGH OF POTTSTOWN

### 2019 WATER FUND BUDGET

	<b>2019 Budget</b>
<b>REVENUES</b>	
Charges for Services	\$6,598,616
Royalties and other rentals	264,481
<b>TOTAL REVENUES</b>	<b>\$6,863,097</b>
 <b>OPERATING EXPENDITURES</b>	
General Government	\$743,279
Public Works, water sanitation	3,169,613
Insurance	78,448
Benefits and Insurance	352,968
Depreciation and Amortization	
Administrative and General	1,900,435
Management Fees	468,285
Transfers	127,349
Miscellaneous Expense	22,720
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$6,863,097</b>

Source: Authority Budget as adopted

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive or complete and is subject to all the terms and provisions of the actual Indenture, copies of which are on file and available for examination at the offices of the Authority and the Trustee. Capitalized terms and phrases used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture. References to "Bonds" in the following summary of the Indenture shall mean bonds issued and outstanding under the Indenture.

#### Rate Covenant

Under the Indenture the Authority has covenanted that water rentals, rates and other charges imposed and in effect at any given time shall be at least such that the estimated amounts to be received therefrom by the Authority, together with other estimated Receipts and Revenues from the Water System to be received by the Authority, and together with money otherwise estimated to be available under provisions thereof for the following purposes, will be sufficient:

- A. To pay the reasonable Administrative Expenses of the Authority in connection with the Water System and in connection with Bonds issued under the Indenture, in each Fiscal Year, to the extent that such Administrative Expenses otherwise shall not be provided for under the Indenture; and
- B. To pay the reasonable Operating Expenses of the Authority pertaining to the Water System, including any and all sums payable to any other party under any lease or management agreement, including the Management Agreement, in each Fiscal Year, to the extent that such Operating Expenses otherwise shall not be provided for; and
- C. To provide an amount, in each Fiscal Year, so long as the Bonds shall remain Outstanding, equal to 110% of the Debt Service Requirements, in such Fiscal Year, on the Bonds then Outstanding, to the extent that such Debt Service Requirements otherwise shall not be provided for under the Indenture; and
- D. To provide an amount, in each Fiscal Year in which Additional Bonds constituting Water Revenue Bonds shall be Outstanding beginning with the first Fiscal Year in which Debt Service Requirements



on such Additional Bonds shall be payable solely from Receipts and Revenues from the Water System, equal to 110% of the Debt Service Requirements, in such Fiscal Year, on the Additional Bonds constituting Water Revenue Bonds then Outstanding, plus mandatory payments, if any, required to be made in such Fiscal Year to any Fund created under the Indenture (including under any supplement to the Indenture in accordance with provisions thereof), to the extent that such Debt Service Requirements or such mandatory payments otherwise shall not be provided for under the Indenture.

### **Certain Funds Under The Indenture**

#### **Settlement Fund**

The proceeds from the sale of the 2019 Bonds shall be paid over to the Trustee and deposited initially in a Settlement Fund from which the Trustee, under the direction of the Authority, shall make the payments, deposits, disbursements and set aside the reserves, if any, set forth in the closing statement required by the Indenture.

#### **Clearing Fund**

All Receipts and Revenues from the Water System received by the Authority shall be transferred to the Trustee for deposit into the Clearing Fund established under the Indenture.

The Authority covenants to pay over to the Trustee for deposit into the Clearing Fund, within 7 days of receipt thereof, the Receipts and Revenues from the Water System received by the Authority, including but not limited to sums paid to the Authority under the Management Agreement.

Money from time to time in the Clearing Fund shall be held by the Trustee, in trust, shall be secured as provided in the Indenture and shall be applied for purposes set forth in the Indenture; and, pending such application, such money shall be subject to a lien and charge in favor of Holders of Water Revenue Bonds and for the further security of such Holders; subject, however to provisions of the Indenture with respect to certain interest and income received from investments and/or deposits of money in the Clearing Fund.

#### **Administrative Expense Fund**

On or before June 15 and on or before December 15 of each Fiscal Year, to and including on or before December 15, 2019, or so long as the Management Agreement shall be in effect, the Trustee, without further direction from the Authority, shall reserve from the Clearing Fund and set aside in the Administrative Expense Fund, for Administrative Expenses, the sum of \$12,500 or such lesser amount as shall be necessary at the time to increase the amount on deposit therein, together with any money withdrawn by the Authority therefrom and then held by it and available for Administrative Expenses, to the sum of \$25,000, unless the Borough shall make additional amounts available for deposit therein, as provided by the Management Agreement.

Upon termination of the Management Agreement, Administrative Expenses, including Operating Expenses, shall be paid from the Clearing Fund.

#### **Debt Service Fund**

There is created a fund, known as the Debt Service Fund, which shall be held by the Trustee, in trust, until applied as provided in the Indenture.

The Trustee, without further direction from the Authority, shall transfer from the Clearing Fund, and shall deposit in the Debt Service Fund, amounts sufficient to pay semiannual installments of interest due on June 15 and December 15 of each year and amounts sufficient to pay annual payments of maturing principal, or mandatory sinking fund deposits, into the Series of 2016 Sinking Fund, due on December 15 of each year, as applicable, as the same shall become due on the Bonds.

#### **Debt Service Reserve Fund**

The Debt Service Reserve Fund is equal to the maximum annual debt service requirement on all outstanding Water Revenue Bonds on a combined basis. The Trustee, without further direction from the Authority, shall apply money in the

Debt Service Reserve Fund toward payment of principal and interest from time to time becoming payable on the Bonds to the extent the Debt Service Fund at any time shall be deficient for such purpose.

#### Maintenance Reserve Fund

Money in the Maintenance Reserve Fund shall be held for purposes of paying or reimbursing the Authority for costs of Extraordinary Repairs to the Water System. The Trustee shall make payments from the Maintenance Reserve Fund only upon receipt of a Requisition from the Authority, accompanied by a Certified Resolution authorizing such Requisition, setting forth the purposes for which money is required. The Authority is also required to furnish the Trustee with a Consulting Engineer's Certificate, containing such information as required by the Indenture. Money and investments in the Maintenance Reserve Fund shall be held by the Trustee, for benefit of holders of Bonds and for their security until disbursed as provided in the Indenture.

#### Bond Redemption and Improvement Fund

On or before December 31 of each Fiscal Year, after all transfers then required to be made from the Clearing Fund, if any, shall have been made, the Trustee, without further direction from the Authority, shall withdraw from the Clearing Fund and shall deposit in the Bond Redemption and Improvement Fund any balance remaining in the Clearing Fund.

There also shall be deposited in the Bond Redemption and Improvement Fund any other amounts authorized in the Indenture and any other money that may be available to the Authority for any purposes provided in the Indenture.

If the Borough shall make additional payment of surplus funds in the Water Revenue Account created under the Management Agreement, the Trustee shall deposit money so paid in the Bond Redemption and Improvement Fund.

If a deficiency shall exist in the Debt Service Fund, including any sinking fund, or the Debt Service Reserve Fund, and there shall be insufficient money in the Clearing Fund to eliminate such deficiency, the Trustee, without further direction from the Authority, forthwith shall transfer a sufficient amount or amounts, as money shall be available, from the Bond Redemption and Improvement Fund to eliminate such deficiency.

If money in the Bond Redemption and Improvement Fund is not required to make good any deficits, as provided in the preceding paragraph, and, except in the case when money is to be transferred for or toward Costs, Costs of Acquisition or Costs of Construction related to completion of a project and no Event of Default has occurred which is continuing, money in the Bond Redemption and Improvement Fund may be used by the Authority, from time to time, upon delivery to the Trustee of documents required by the Indenture, for any of the following purposes:

- A. For or toward costs of Extraordinary Repairs; or
- B. For or toward Costs, Costs of Acquisition or Costs of Construction of Capital Additions and, if necessary, for or toward Costs, Costs of Acquisition or Costs of Construction related to completion of a project; or
- C. For redemption of Water Revenue Bonds of such series and in such aggregate principal amounts as the Board of the Authority, from time to time, shall determine; or for supplementing money in other appropriate Funds under the Indenture in order to retire all Water Revenue Bonds then Outstanding; or for purchasing Outstanding Water Revenue Bonds of any series at not more than the then current redemption price applicable to such Water Revenue Bonds or at not more than the first available redemption price applicable to such Water Revenue Bonds if the same at the time shall not be subject to redemption; or
- D. To pay, as and when the same shall become due and payable, any expenses, debts, liabilities and obligations of the Authority, except such as shall be payable only out of Receipts from Assessments, required or authorized to be paid under the terms of the Indenture and for payment of which provision otherwise shall not have been made, including payment of costs and expenses or such parts thereof, if any, as the Board shall determine not to fund which may be incurred in connection with issuance of Additional Bonds constituting Water Revenue Bonds, including, in the case of Additional Bonds constituting Water Revenue Bonds issued for refunding purposes, redemption premiums, accrued interest and expenses of redemption; or
- E. To pay any notes or certificates of indebtedness which may have been issued by the Authority under the Indenture; or
- F. For any other legally permissible purpose.

### Discharge of the Indenture

If the Authority shall pay or cause to be paid to the Holders of the Bonds, the principal and interest due and any premium thereon, at times and in the manner stipulated therein, and if the Authority shall pay or shall cause to be paid all other sums payable under the Indenture by the Authority, then the Indenture and the estate and rights granted therein shall cease, shall determine and shall be void.

### Security for Deposits and Investment of Funds

All money held, set aside or deposited under provisions of the Indenture by or with the Trustee shall be trust funds under the terms of the Indenture and shall not be subject to lien (other than that of the Indenture) or attachment by any creditor of the Authority. All such money that shall be invested by the Trustee, to the extent not insured by the Federal Deposit Insurance Corporation or other United States agency, shall be secured continuously for the benefit of the Authority and appropriate Bondholders, as required, from time to time, by laws of the Commonwealth. Obligations pledged as such security shall be deposited with a Federal Reserve Bank, or with the trust department of the Trustee as shall be authorized by law with respect to trust funds in the Commonwealth, or with some other bank, trust company or depository satisfactory to the Trustee or as otherwise provided by law.

Money in the Clearing Fund, Construction Fund, Debt Service Fund, Debt Service Reserve Fund, Water Assessment Fund, Maintenance Reserve Fund and, subject to the limitations hereinafter set forth, in the Bond Redemption and Improvement Fund shall, at all times, be invested by the Trustee in Permitted Investments pursuant to a Resolution adopted by the Authority at the time of issuance of the Bonds which shall remain in effect for the life of the Bonds unless otherwise amended and if such direction is not given or such direction is revoked, the Trustee may invest all funds in money market funds rated "AAAm" or AAAm-G" or better by S&P.

Whenever the investment of money is in direct obligations of the United States, such obligations shall have maturity dates, or in lieu of maturity dates, shall be subject to redemption, at the option of the holder, at a price not less than the principal amount thereof or the cost of acquisition, whichever is lesser, upon dates no later than dates as follows:

- A. In the case of the Construction Fund, the earlier of two years from the date of investment or the estimated date when money will be required to be expended or transferred;
- B. In the case of the Clearing Fund, and of any Fund or Account established for paying Operating Expenses or Administrative Expenses, including the Administrative Expense Fund, the estimated date when money will be required to be expended or transferred; provided, however, that such obligations shall not be purchased at a premium and the amount payable upon maturity or upon redemption thereof shall not be less than the cost of acquisition;
- C. In the case of the Debt Service Fund and any Water Assessment Fund, 180 days from the date of investment or the date when money will be needed for payments, whichever shall be the earlier; provided, however, that such obligations shall not be purchased at a premium and the amount payable upon maturity or upon redemption thereof shall not be less than the cost of acquisition;
- D. In the case of the Maintenance Reserve Fund or Debt Service Reserve Fund, ten years from the date of investment;
- E. In the case of the Bond Redemption and Improvement Fund, five years from the date of the investment or the date specified in the Certified Resolution to be furnished as set forth in the Indenture as the date when such money shall be required to be expended, whichever shall be the earlier; and

### Additional Bonds

The Indenture provides for the issuance of Additional Bonds for the purpose of providing all or part of funds necessary to pay the Costs, Costs of Acquisition or Costs of Construction of Capital Additions or to refund, all or part of then Outstanding Water Revenue Bonds, all in accordance with the terms of and as defined in the Indenture.

The issuance of additional Water Revenue Bonds are subject to, among other things, the receipt by the Trustee of a Consulting Engineer's Certificate stating that, subject to specified limitations, the projected Receipts and Revenues from the Water System to be received in each Fiscal Year will satisfy the terms of the Rate Covenant, giving effect to the issuance of such Additional Bonds, all as defined in the Indenture.

### Defaults and Remedies

The Act provides remedies to the Bondholders in the Event of Default or failure on the part of the Authority to fulfill its covenants.

Under the Indenture, in the event of any such event of default as therein defined, the Trustee may proceed, and upon the written request of applicable Bond Insurer or the holders of 25% in principal amount of the Bonds then outstanding, accompanied by indemnity as provided in the Indenture, shall enforce for the equal benefit of all Bondholders and all their rights provided under the Indenture and said Act, including bringing suit, action or proceedings at law or in equity and of having a receiver appointed.

For a more complete statement of the rights and remedies of the Bondholders and of the limitations thereon, reference is made to the Indenture and the Act.

### Particular Covenants of the Authority

The Authority covenants in the Indenture that it promptly will pay or cause to be paid, but only from the Receipts and Revenues from the Water System and other receipts, revenues and money of the Authority available for such purposes, the principal of, premium, if any, and interest on the Bonds at the place, on the dates and in the manner specified therein and in the Bonds, according to the true intent thereof.

The Authority covenants that, at all times, it will or will cause the Borough under the Management Agreement:

- A. To maintain the Water System in good repair and operating condition;
- B. To operate the same continuously; and
- C. To make all necessary and proper repairs, renewals, replacements, and improvements thereto, in order to maintain adequate services.

The Authority covenants that, so long as any Bonds shall remain outstanding and the Management Agreement is in effect: (1) it will require the Borough to pay all sums payable by it under the Management Agreement; (2) it will require the Borough to observe faithfully all its covenants and agreements under the Management Agreement; and (3) if the Borough shall fail to make such payments or to observe such covenants and agreements, it will institute and prosecute all legal proceedings appropriate for protection of holders of the Bonds.

### Modification and Amendments

The Authority and the Trustee, from time to time, may enter into supplemental indentures as shall not adversely affect the rights of Holders of Bonds (a) to cure any ambiguity, formal defect or omission in the Indenture or any supplemental indenture, or (b) to grant or confer upon the Trustee, for benefit of Holders of Bonds, or Water Revenue Bonds, as applicable, additional rights, remedies, powers, authority or security that lawfully so may be granted or conferred, or (c) to add to covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to the Authority under the Indenture; or, as shall have been approved by the bond insurers, if any, which supplemental provisions may provide for the addition of other utility systems to the facilities and revenues governed by the Indenture. All other supplemental indentures require the consent and approval of any applicable Bond Insurer and the registered owners of not less than 66 2/3% in aggregate principal amount of all Bonds then outstanding, but no supplemental indenture shall, (1) extend the maturity, reduce the principal amount, reduce the interest rate or extend the time of payment or reduce any premium payable upon redemption of the Bonds; (2)

affect the rights of holders of less than all Bonds; (3) reduce the percentage of registered owners required for modification as aforesaid; or (4) permit creation by the Authority of any lien or encumbrance prior to or on a parity with the lien of the Indenture.

## **LEGALITY**

The issuance and delivery of the Bonds is subject to the approval of certain legal matters by Lamb McErlane PC, West Chester, Pennsylvania, Bond Counsel. A copy of the form of the opinion of Bond Counsel appears as Appendix B herein. Certain legal matters will be passed upon for the Authority by its Solicitor, Lamb McErlane PC, West Chester, Pennsylvania and for the Borough by the Borough's Solicitor, Wolf, Baldwin & Associates, P.C., Pottstown, Pennsylvania.

## **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with the requirements of the Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Borough and the Authority (being an "obligated person" with respect to the Bonds, within the meaning of the Rule), will agree to provide the following to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format as prescribed by the MSRB, either directly or indirectly through a designated agent:

- (A) Annually, not later than the first day of the eighth calendar month immediately following the end of each calendar year, beginning with the calendar year ending December 31, 2019, the following financial information and operating information for the Authority:

### **For the Authority:**

- (1) Audited financial statements for the most recent calendar year, prepared in accordance with generally accepted accounting principles for local government units;
- (2) Operating data of the Authority of the type contained under "DESCRIPTION OF THE WATER SYSTEM" herein; and
- (3) The total numbers of employees of the Authority

### **For the Borough:**

- (1) Audited financial statements for the most recent calendar year, prepared in accordance with generally accepted accounting principles for local government units;
- (2) Operating data of the Borough including, to the extent reasonably feasible, real estate tax collection information, other tax information and calculations showing the outstanding principal amount of Borough indebtedness as of calendar year-end, and the amount of additional indebtedness the Borough is permitted to incur in the future under then applicable law as of calendar year-end; and
- (3) The total numbers of employees of the Borough

- (B) In a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
- (8) bond calls, if material, and tender offers;

- (9) defeasances;
  - (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
  - (11) rating changes;
  - (12) bankruptcy, insolvency, receivership or similar event of the Borough and Authority;
  - (13) the consummation of a merger, consolidation, or acquisition involving the Borough and Authority or the sale of all or substantially all of the assets of the Borough and Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;
  - (15) incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material;
  - (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties; and
- (C) in a timely manner, notice of a failure of the Borough and Authority to provide the required annual financial information specified above, on or before the date specified above.

With respect to the filing of annual financial and operating information, the Borough and Authority reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the Borough and Authority or its operations or financial reporting, but the Borough and Authority will agree that any such modification will be done in a manner consistent with the Rule.

The events listed in (C) above are those specified in the Rule, not all of which may be relevant to the Bonds. The Borough and Authority may from time to time choose to file notice of the occurrence of other events, in addition to the events listed in (C) above, but the Borough and Authority does not commit to provide notice of the occurrence of any events except those specifically listed in (C) above.

The Borough and Authority acknowledge that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the Borough and Authority's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the Borough and Authority to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The Borough and Authority's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the Borough and Authority is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other "obligated persons" with respect to municipal securities issues) are made available through the MSRB's Electronic Municipal Market Access ("EMMA") System, which may be accessed on the internet at <http://www.emma.msrb.org>.

Certain operating data of the Borough and Authority may be inherently included in the annual filings of financial statements, the summary of the budget, contents in Preliminary Official Statements of future bond issues as well as publicly available information.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

## Existing Continuing Disclosure Filing History

The Borough and Authority has previously entered into Continuing Disclosure Agreements with respect to each one of its previously issued bond issues that are currently outstanding. The Borough and Authority's filing history of its annual financial and operating information during the past five (5) years is outlined in the table below.

<b>Authority</b>					
Calendar Year Ending	Filing Deadline <sup>[1]</sup>	Financial Statements		Operating Data	
		Filing Date	EMMA ID <sup>[2]</sup>	Filing Date	EMMA ID <sup>[2]</sup>
12/31/2014	8/1/2015	7/28/2015	EA598977	7/28/2015	EA598967
12/31/2015	7/31/2016	7/19/2016	ER773698	7/19/2016	ER773754
12/31/2016	8/1/2017	8/31/2017 <sup>[3]</sup>	ER844657	7/25/2017	ER837091
12/31/2017	8/1/2018	7/24/2018	ES915446	7/24/2018	ES915449
12/31/2018	8/1/2019	7/16/2019	ES993590	7/16/2019	ES993589

<b>Borough</b>					
Calendar Year Ending	Filing Deadline <sup>[1]</sup>	Financial Statements		Operating Data	
		Filing Date	EMMA ID <sup>[2]</sup>	Filing Date	EMMA ID <sup>[2]</sup>
12/31/2014	8/1/2015	7/28/2015	EA598974	7/28/2015	EA598966
12/31/2015	7/31/2016	7/19/2016	ER773701	7/19/2016	ER773744
12/31/2016	8/1/2017	8/31/2017 <sup>[3]</sup>	ER844651	7/25/2017	ER837091
12/31/2017	8/1/2018	7/24/2018	ES915421	7/24/2018	ES915416
12/31/2018	8/1/2019	7/16/2019	ES993601	Various <sup>[4]</sup>	ES993603

### Notes

<sup>[1]</sup> For these purposes, assumes the shortest filing deadline of the Borough and Authority's previous Continuing Disclosure Agreements

<sup>[2]</sup> Submission ID is the EMMA Submission ID for each filing. To access a filing, insert the Submission ID to the end of the web address below:  
<http://emma.msrb.org/ContinuingDisclosureView/ContinuingDisclosureDetails.aspx?submissionId=>

<sup>[3]</sup> The Borough posted a Notice Regarding the Status of the Audit on 7/25/2017 (EMMA ID ER837105).

<sup>[4]</sup> The Borough filed a portion of the operating data on 7/16/2019 (EMMA ID ES993603). The Borough inadvertently omitted the Top Ten Taxpayers of the Borough in the previous filing but filed the update on 9/24/2019.

Based on the information above, the Borough and Authority's annual financial and operating filing history over the past five (5) years can be summarized as follows:

For calendar year ending December 31, 2014 and December 31, 2015, the Borough and Authority's operating data and audited financial statements were filed timely.

For calendar year ending December 31, 2016, the Borough and Authority's operating data were filed timely. The audited financial statements were filed late; however a Notice Regarding the Status of the Audit was timely filed.

For calendar year ending December 31, 2017, the Borough and Authority's operating data and audited financial statements were filed timely.

For calendar year ending December 31, 2018, the Borough and Authority's audited financial statements were filed timely. The Authority's operating data and a portion of the Borough's operating data were filed timely. The remaining portion (Top Taxpayers) of the Borough's operating data was filed late.

### Failure to Provide Annual Financial Information

As outlined in the table above, the Borough and Authority failed to provide certain annual financial information in a timely manner during the past (5) five years. The Borough and Authority filed a "Failure to Provide Annual Financial Information" notice to EMMA on November 21, 2014 and October 7, 2019.

## **Future Continuing Disclosure Compliance**

The Borough and Authority has conducted a thorough review of its continuing disclosure obligations and submissions. Upon discovering any inadvertent omissions with respect to these filings, the Borough and Authority, to the best of its knowledge, has attempted to bring its continuing disclosure filings up to date.

In an effort to augment the Borough and Authority's procedures and policies to maintain future compliance, the Borough and Authority have taken additional steps intended to assure future compliance with its Continuing Disclosure Agreements. These steps include implementing the MSRB's EMMA's internal notification system whereby the Borough and Authority will receive timely email reminders a month in advance for all of the Borough and Authority's annual disclosure filings and coordinating with the Borough and Authority's financial advisor to ensure all disclosure obligations have been made on a timely basis and in all material respects.

A member of the Borough and Authority's business office will be responsible for ensuring ongoing continuing disclosure compliance. Members of the Borough and Authority's business office will make an effort to participate in any ongoing continuing education regarding continuing disclosure undertaking if offered by local groups or affiliated organizations such as MSRB or GFOA. The Borough and Authority may communicate with its financial advisor, underwriter(s), bond counsel, or solicitor regarding any questions or concerns regarding ongoing continuing disclosure compliance. The Borough and Authority may also communicate with its local auditor and advise of the Borough and Authority's need for financial statements in a timely manner. Some of the operating data requirements may be found contained within the Borough and Authority's financial statements or budget filing and may not be filed explicitly by themselves.

## **TAX MATTERS**

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing laws as enacted and construed, assuming the accuracy of the certifications of the Authority and the Borough and continuing compliance by the Authority and the Borough with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a specific preference item for purposes of individual federal alternative minimum tax. This opinion is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, and purchase at market discount or at a premium, taxation upon sale, redemption or other disposition and various withholding requirements.

Certain Bonds may be offered at a discount ("original issue discount") equal generally to the difference between their public offering price and their principal amount. For federal income tax purposes, original issue discount on a Bond accrues periodically over the term of the Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders should consult their tax advisers for an explanation of the accrual rules.

Certain Bonds may be offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holder's tax basis for the Bond for determining taxable gain or loss upon sale or redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Holders should consult their tax advisors for an explanation of the amortization rules.

The Authority has designated the Bonds as "qualified tax-exempt obligations" within the meaning of paragraph (b)(3)(B) of Section 265 of the Code and has made certain representations and covenants necessary to cause the Bonds to continue to be obligations described in such paragraph during the period in which the Bonds are outstanding. In the opinion of Bond Counsel, assuming the accuracy of such representations and compliance with such covenants, banks, thrift institutions and other financial institutions which purchase the Bonds, may take into account as a deductible expense in calculating their federal income tax liability, 80 percent of their expense allocable of the Bonds.



Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania.

The opinions expressed by Bond Counsel above are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Legislative and regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

**THE FOREGOING IS NOT INTENDED AS AN EXHAUSTIVE LIST OF THE PROVISIONS OF FEDERAL, STATE AND LOCAL TAX LAWS WHICH MAY HAVE AN EFFECT ON INDIVIDUALS AND CORPORATIONS HOLDING THE BONDS OR RECEIVING INTEREST THEREON. PROSPECTIVE PURCHASERS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE EFFECT ON THEIR FEDERAL, STATE OR LOCAL TAX LIABILITY AND GENERAL FINANCIAL AFFAIRS OF HOLDING THE BONDS OR RECEIVING INTEREST THEREON.**

### **LEGAL PROCEEDINGS**

There is no litigation of any nature now pending, or to the knowledge of the Authority threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or applications of any moneys or security provided for the payment of the Bonds or the existence or powers of the Authority.

### **FINANCIAL ADVISOR**

In connection with the authorization and issuance of the Bonds, the Authority has retained PFM Financial Advisors LLC, Malvern, Pennsylvania, as its financial advisor ("Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Preliminary Official Statement and any Appendix hereto.

### **UNDERWRITING**

The Bonds are being purchased for reoffering by the Underwriter at a purchase price of \$\_\_\_\_\_ being the principal amount of the Bonds plus net original issue premium of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_.) The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, and requires that the Authority certify to the Underwriter that, to the knowledge of Authority officials as of the date of delivery of the Bonds, the Preliminary Official Statement does not contain any untrue statement of material fact or omit to state any material fact required to be stated pertaining to the Authority or the Bonds.

The public offering prices stated on the inside cover page may be changed from time to time by the Underwriter without prior notice. The Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market; such stabilizing, if commenced, may be discontinued at any time without prior notice.

### **RATING**

S&P Global Ratings ("S&P") has assigned a rating to the Bonds of "AA" (Stable Outlook), subject to their issuance.

Such rating reflects only the view of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address Standard and Poor's Rating Group, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating

agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **CERTAIN MATTERS**

All the summaries of the provisions of the Act, the Code, the Bonds, the Indenture, the Management Agreement and the Guaranty Agreement set forth herein are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions.

All estimates and assumptions herein have been made on the best information available and are believed to be reliable, but no representations are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The Board of the Authority has authorized the distribution of this Preliminary Official Statement.

POTTSTOWN BOROUGH AUTHORITY

By: \_\_\_\_\_  
Chairman

**APPENDIX A**  
**DESCRIPTION OF THE MUNICIPALITIES SERVED BY THE AUTHORITY**

## BOROUGH OF POTTSTOWN

### Location

The Borough of Pottstown, (the “Borough”) is located in the western portion of the County of Montgomery (the “County”) along the Schuylkill River. The Borough covers an area 5.1 square miles in an industrialized section of the County. The Borough lies 37 miles northwest of the City of Philadelphia, 20 miles northwest of King of Prussia, 18 miles southeast of Reading, 32 miles south of the City of Allentown and 20 miles north of Exton. State highways 724, 663 and 100 provide access in and out of the area to the Pennsylvania Turnpike and Interstate 80. The U.S. 422 Expressway connects the Borough to U.S. 202 and affords commuters access to and from the King of Prussia area and the City of Philadelphia via the Schuylkill Expressway (I-76).

### History

The Borough was created by an Act of the Pennsylvania State Assembly on February 6, 1815, the second Borough to be formed in the County.

### Population

Population statistics for the Borough, the County and the Commonwealth of Pennsylvania (the “Commonwealth”) for the period 1990 to 2010 are presented below:

	<b>1990</b>	<b>2000</b>	<b>2010</b>
Borough of Pottstown	21,831	21,859	22,377
Montgomery County	678,111	750,097	799,874
Pennsylvania	11,881,643	12,281,054	12,702,379

Source: U.S. Bureau of Census. 2010 Census.

The population of the Borough was stable from 1990 to 2000 and has increased 2.4% over the past decade. The completion of U.S. Highway 422 brought residential growth from the suburban Philadelphia areas, due to relatively short commute (20 minutes) to and from the King of Prussia area, a major commercial and retail sales center in suburban Philadelphia. In addition, economic revitalization of the industrial sector and continued growth and expansion of industrial parks has created employment opportunities.

### AGE COMPOSITION

	<b>0-17 Years</b>	<b>18-64 Years</b>	<b>65+ Years</b>	<b>Persons Per Household</b>
<b>Pottstown Borough</b>	23.8	62.7	13.4	2.36
<b>Montgomery County</b>	22.9	61.9	15.1	2.53
<b>Pennsylvania</b>	22.0	62.6	15.4	2.45

Source: Pennsylvania State Data Center; 2010 Census.

### Nuclear Power Plant

The Philadelphia Electric Company (PECO) Limerick Nuclear Power Plant is located approximately three miles to the east of the Borough. At present, both reactors at this facility are in operation.

### Housing

According to the 2010 census figures, there are 10,320 housing units in the Borough of Pottstown and 325,735 in Montgomery County.

## **Income**

The data below shows recent trends in per capita income for the Borough, Montgomery County and Pennsylvania during the 1990-2010 period.

### **RECENT TRENDS IN PER CAPITA INCOME\***

	<b><u>1990</u></b>	<b><u>2000</u></b>	<b><u>2010</u></b>
<b>Pottstown Borough</b>	\$13,291	\$19,078	\$23,636
<b>Montgomery County</b>	21,990	30,898	38,792
<b>Pennsylvania</b>	14,068	20,880	26,374

\* Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: Pennsylvania State Data Center, 1990, 2000, and 2010 Census.

## **Financial History**

The Borough has not defaulted on the payment of interest or principal on any Borough's obligations, or on any lease rental obligations nor has the Borough, at any time, issued refunding obligations in order to avoid a default on an existing obligation.

### **SUMMARY OF FINANCIAL FACTORS**

#### **Population:**

2010 Population	22,377
2000 Census	21,859
1990 Census	21,831
Market Valuation of Real Property, 2015	\$989,251,134
Assessed Valuation of Real Property, 2015	\$810,196,679

#### **Ratio of Assessed to Market Valuation**

2015 Market Valuation Per Capita (based on 2010 population)	\$44,208
2015 Assessed Valuation Per Capita (based on 2010 population)	\$36,207

Source: U.S. Census; Pennsylvania State Tax Equalization Board.

**BOROUGH OF POTTSTOWN**  
**Balance Sheets**  
**(Year Ended December 31)**

	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>
<b>Assets:</b>					
Cash and Cash Equivalents	\$1,906,037	\$1,594,584	\$1,856,739	\$1,072,690	\$2,439,232
Investments	774,714	1,640,302			
Receivables, Net	565,464	433,259	505,930	495,069	528,012
Due from other Governments	0	205	1,858	1,793	
Prepaid Expenditures	255,140	120,184	131,959	290,326	259,869
Due from Other Funds	1,545,590	1,751,449	1,996,860	1,105,967	697,390
<b>Total Assets:</b>	<u>\$5,046,945</u>	<u>\$5,539,983</u>	<u>\$4,493,346</u>	<u>\$2,965,845</u>	<u>\$3,924,503</u>
<b>Liabilities</b>					
Accounts Payable	\$112,064	\$1,709,549	\$1,994,137	\$77,674	\$86,637
Due to component unit	0	0		25,879	
Accrued Liabilities	510,098	171,422	225,662	189,991	89,442
Due to other Governments	243	0			
Deferred Revenue	0	0			
<b>Total Liabilities</b>	<u>\$622,405</u>	<u>\$1,880,971</u>	<u>\$2,219,799</u>	<u>\$293,544</u>	<u>\$176,079</u>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue - Property Taxes	\$249,536	\$223,103	\$219,010	\$229,139	\$238,188
<b>FUND BALANCES</b>					
Nonspendable	\$255,140	\$120,184	\$131,959	\$290,326	\$259,869
Committed, OPEB	625,898	931,003			
Unreserved:	3,293,966	2,384,722	1,922,578	2,152,836	3,250,367
<b>Total Fund Balances</b>	<u>\$4,175,004</u>	<u>\$3,435,909</u>	<u>\$2,054,537</u>	<u>\$2,443,162</u>	<u>\$3,510,236</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$5,046,945</u>	<u>\$5,539,983</u>	<u>\$4,493,346</u>	<u>\$2,965,845</u>	<u>\$3,924,503</u>

Source: Borough Annual Financial Statements.

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**BOROUGH OF POTTSTOWN  
SUMMARY OF GENERAL FUND  
FOR YEARS 2014 THROUGH 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Revenues:</b>					
Taxes	\$8,286,622	\$8,718,989	\$8,859,340	\$9,172,968	\$9,526,195
Intergovernmental	773,737	914,084	944,355	1,027,231	1,010,984
Charges for Services	1,546,422	1,589,596	1,630,966	1,474,472	2,025,826
Fees, licenses and permits	494,725	477,913	534,288	538,096	522,267
Court costs and fines	169,694	202,936	214,568	170,469	173,201
Interest & Rents	15,695	24,123	908	18,320	52,201
Miscellaneous Revenues	199,964	76,531	91,162	38,231	171,237
<b>Total Revenues</b>	<u>\$11,486,859</u>	<u>\$12,004,172</u>	<u>\$12,275,587</u>	<u>\$12,439,787</u>	<u>\$13,481,911</u>
<b>Expenditures:</b>					
General Government	\$2,932,325	\$3,040,224	\$3,197,837	\$3,246,849	\$2,967,710
Public Safety - Police	6,849,665	7,013,264	7,585,390	7,705,804	8,061,943
Public Works					
Zoning	489,156	623,968	656,313	516,564	506,321
Highways	679,391	253,339	229,280	261,633	229,319
Other Public Works	5,902	3,452	6,395	6,382	
Culture & Recreation	9,500	10,525	10,525	10,525	
Conservation and Development	229,824	198,495	171,141	143,783	115,424
Miscellaneous Expenditures	0	0	0		
<b>Total Expenditures</b>	<u>\$11,195,763</u>	<u>\$11,143,267</u>	<u>\$11,856,881</u>	<u>\$11,891,540</u>	<u>\$11,880,717</u>
<b>Excess of revenues over (under) expenditures</b>	<u>\$291,096</u>	<u>\$860,905</u>	<u>\$418,706</u>	<u>\$548,247</u>	<u>\$1,601,194</u>
<b>Other Financing Sources (uses)</b>					
Proceeds from sale of capital assets	\$19,491	\$0	\$66,246	\$18,934	\$380
Reimbursement from Pottstown Bor. Auth..	7,832	0			
Contribution to OPEB Fund			(931,003)		
Contribution from(to) Pottstown Bor. Auth.			(95,227)	23,173	
Transfers in	65,664	50,000	0	34,771	
Transfers Out	(152,987)	(1,650,000)	(840,094)	(236,500)	(534,500)
<b>Total Other Financing Sources (uses)</b>	<u>(\$60,000)</u>	<u>(\$1,600,000)</u>	<u>(\$1,800,078)</u>	<u>(\$159,622)</u>	<u>(\$534,120)</u>
<b>Net Change in Fund Balances</b>	\$231,096	(\$739,095)	(\$1,381,372)	\$388,625	\$1,067,074
<b>Fund balance - beginning of year</b>	<u>\$3,943,908</u>	<u>\$4,175,004</u>	<u>\$3,435,909</u>	<u>\$2,054,537</u>	<u>\$2,443,162</u>
<b>Fund balance - end of year</b>	<u>\$4,175,004</u>	<u>\$3,435,909</u>	<u>\$2,054,537</u>	<u>\$2,443,162</u>	<u>\$3,510,236</u>

Source: Borough Annual Financial Statements.

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**BOROUGH OF POTTSTOWN  
GENERAL FUND - 2019 BUDGET**

	<b>Budget 2019</b>
<b>Revenues:</b>	
Taxes	\$6,809,548
Act 511 Taxes	3,008,000
Licenses and Permits	483,150
Fines	170,200
Interest/Rent	28,601
Government	822,441
Charges for Services	1,382,485
Miscellaneous	40,000
Unclassified Operating Revenue	480,641
Refund of Prior Year's Expense	
<b>Total Revenues</b>	<b>\$13,225,066</b>
<b>Reserves</b>	<b>\$26,500</b>
<b>Total Revenues and Reserve</b>	<b><u>\$13,251,566</u></b>
<b>Expenditures:</b>	
Legislative	\$13,000
Administration	829,316
Police/Fire Protection	8,678,286
Code Enforcement/Zoning	780,337
Miscellaneous	658,100
Pension	1,885,699
Insurance	204,694
Transfers	33,000
Refunds	169,134
<b>Total Expenditures</b>	<b><u>\$13,251,566</u></b>

Source: 2019 Budget as adopted.

**TAXING POWER OF THE BOROUGH**

The Council of the Borough shall have power pursuant to the Pennsylvania Borough Code of 1966, Act of February 1, 1966, P.L. 581 ("Borough Code") and the Pennsylvania Local Tax Enabling Act, Act of December 31, 1965, P.L. 1257 ("The Local Tax Enabling Act", effective January 1, 1966), by ordinance, to levy and collect annually, a tax, not exceeding thirty (30) mills for general Borough purposes, unless the Council by majority action shall, upon due cause shown by resolution, petition the court of common pleas, in which case the court may order a rate of not more than five (5) mills additional to be levied. In addition to the 30 mills, the Borough may levy any of the following taxes:

- (1) An annual tax sufficient to pay interest and principal on any indebtedness incurred pursuant to the act of July 12, 1972 (P.L. 781, No. 185), known as the "Local Government Unit Debt Act," or any prior or subsequent act governing the incurrence of indebtedness of the Borough;
- (2) To provide for pensions, retirement or the purchase of annuity contracts for Borough employees, not exceeding one-half (1/2) mill;
- (3) To defray the cost and expenses of caring for shade trees as provided in the Borough Code, and the expense of publishing the notice referred to in such section, not exceeding one-tenth (1/10) mill;
- (4) For lighting and illuminating the streets, highways and other public places with electric light, gas light or other illuminant, not exceeding eight (8) mills;



(5) For gas, water and electric light, not exceeding eight mills, such additional millage permitted only following a favorable referendum on the matter held in accordance with the act of April 16, 1875 (P.L. 55), as amended;

(6) For the purchase of fire engines, fire apparatus and fire hose for the use of the Borough, or for assisting any fire company in the Borough in the purchase, renewal or repair of any of its fire engines, fire apparatus or fire hose, for the purposes of making appropriations to fire companies both within and without the Borough and of contracting with adjacent municipalities or volunteer fire companies therein for fire protection, for the training of fire personnel and payments to fire training schools and centers or for the purchase of land upon which to erect a fire house, or for the erection and maintenance of a fire house or fire training school and center or fire houses, not exceeding three (3) mills. If an annual tax for the purposes specified in this clause is proposed to be set at a level higher than three mills, the question shall be submitted to the voters of the Borough, and the county board of elections shall frame the question in accordance with the election laws of the Commonwealth for submission to the voters of the Borough;

(7) For building a fire house, fire training center school and center, lockup and/or municipal building, not exceeding two (2) mills, such additional millage permitted only following a favorable referendum on the matter held in accordance with the Act of May 4, 1927 (P.L. 673);

(8) To establish and/or maintain a local library or to maintain or aid in the maintenance of a local library established by deed, gift or testamentary provision, for the use of the residents of the Borough, in accordance with the Act of June 14, 1961 (P.L. 324, No. 188), known as The Library Code;

(9) For the purpose of supporting ambulance and rescue squads serving the Borough, not to exceed one-half (1/2) mill, except as provided below.

The said taxes shall be levied on the dollar valuation assessed for county purposes, as now is or may be provided by law. All real property, offices, professions and persons, made taxable by the laws of this Commonwealth for county rates and levies, may, in the discretion of council, be taxed after the same manner for such purposes. No action on the part of the Borough authorities fixing the tax rate for any year at a mill rate need include a statement expressing the rate of taxation in dollars and cents on each one hundred dollars (\$100) of assessed valuation of taxable property. Nothing shall prevent the application of moneys received from taxes levied for general purposes to the purposes of paying interest and sinking fund charges on indebtedness.

The proceeds of all taxes for which additional millage is authorized shall be kept in a separate fund and used only for the purposes hereby provided therefore: provided, that the additional taxes authorized by referendum shall continue to be levied annually for so long a period as provided in the question submitted in such referendum, and, in the case of any such taxes for which the question voted upon shall not have stated, the duration of such tax, until such tax shall be abolished by vote of the electors in a subsequent referendum.

The tax for supporting ambulance and rescue squads serving the Borough shall not exceed one-half mill except when the question is submitted to the voters of the Borough in the form of a referendum which will appear on the ballot in accordance with the election laws of the Commonwealth, in which case the rate shall not exceed two (2) mills. The County Board of Elections shall frame the question to be submitted to the voters of the Borough in accordance with the election laws of the Commonwealth.

Under the Local Tax Enabling Act, additional taxes may be levied (subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege), subject to the following limitations:

Tax on Occupations - no rate limit set by The Local Tax Enabling Act if a millage or percentage of the assessed valuation of occupations is used as a base.

Wages, salaries, commissions and other earned income of individuals	1.0%
Transfer of title of real property	0.50%
The Emergency and Municipal Services Tax (subject to right of School District to claim \$5.00 and restricted in use to the payment of expenses of the Borough for police, fire and emergency services)	\$52.00
Admissions (except motion picture theaters)	10%

The aggregate amount of taxes under The Local Tax Enabling Act shall not, in the case of any political subdivision, including school districts of the second, third and fourth classes, exceed an amount equal to the product of twelve (12) mills on the latest total market value of real estate as determined by the board for the assessment and revision of taxes or any similar board established by the assessment laws which determines market values of real estate within the political subdivision; or if no such board has determined such values, then the values as certified by the State Tax Equalization Board shall be used.

Act 7, approved by the General Assembly of the Commonwealth of Pennsylvania on February 10, 1970, provides that notices be sent out by the Tax Collector within 30 days following receipt of the tax duplicate by the Tax Collector unless extended by the taxing district but in no case later than the first day of March.

A 2% discount is allowed for payment within 60 days of date of notice and a penalty of 10% is imposed on payments received more than 120 days after the date of such notice.

Delinquent taxes are liened by filing in the County Tax Claim Bureau by the first Monday of June in the year following the year of levy. The Borough levies its own taxes and is independent of any other taxing authority.

### TAX LEVIES

Residents of the Borough are subject to the following real estate property taxes:

<b><u>Taxing Entity</u></b>	<b><u>Millage Rates</u></b>
Borough (2016)	12.675
Montgomery County (2016)	3.849
Pottstown School District (2015-2016)	40.626
Total	57.150

Source: Local Government Officials.

The Borough levies an earned income tax of 1% which is shared equally with the School District.

### COMPARATIVE REAL PROPERTY TAX RATES (Mills on Assessed Value)

	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Pottstown Borough	10.3110	10.3110	10.3110	11.5800	12.6750
Pottstown School District	39.2522	39.2522	39.2522	40.6260	40.6260
Montgomery County	3.1520	3.4590	3.8490	3.8490	3.8490

Source: Local Government Officials.

### ASSESSED AND MARKET VALUATION TRENDS

Assessed and market valuations of real property of the Borough for the past ten years are shown below:

<b><u>Year</u></b>	<b><u>Market Value</u></b>	<b><u>Assessed Value</u></b>	<b><u>Ratio</u></b>
2009	1,473,218,881	826,475,792	56.10%
2010	1,412,321,531	819,146,488	58.00%
2011	1,010,306,755	817,767,813	80.94%
2012	1,009,656,195	812,526,696	80.48%
2013	1,010,334,464	813,158,756	80.48%
2014	991,838,371	812,304,907	81.90%
2015	989,525,521	810,196,679	81.88%
2016	978,525,478	803,759,919	82.14%
2017	976,698,058	801,702,359	82.08%
2018	967,172,807	772,067,009	79.83%

Source: Pennsylvania State Equalization Board

## REAL PROPERTY ASSESSMENT BY MUNICIPALITY

	<b>2017 Market Value</b>	<b>2017 Assessed Value</b>	<b>2018 Market Value</b>	<b>2018 Assessed Value</b>
Borough	\$976,698,058	\$801,702,359	\$967,172,807	\$772,067,009
School District	976,698,058	801,702,359	967,172,807	772,067,009
Montgomery County	93,009,569,909	59,955,885,334	97,235,659,407	60,354,912,665

Source: State Tax Equalization Board.

## BOROUGH ASSESSMENT BY LAND USE

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Residential	\$549,897,100	\$549,529,050	\$549,199,590	\$548,085,200	\$544,982,070
Lots	3,951,590	3,980,980	3,868,220	3,780,880	3,572,190
Industrial	56,451,699	56,509,589	55,674,479	53,835,119	52,841,469
Commercial	201,621,978	198,401,120	193,624,230	194,607,760	169,277,880
Agriculture	382,540	1,775,940	1,393,400	1,393,400	1,393,400
Land	0	0	0	0	0
<b>Total</b>	<b>\$812,304,907</b>	<b>\$810,196,679</b>	<b>\$803,759,919</b>	<b>\$801,702,359</b>	<b>\$772,067,009</b>

Source: Pennsylvania State Tax Equalization Board.

## REAL ESTATE TAX COLLECTIONS

Real estate tax collections for the Borough for the past five years are shown below:

<b>Year</b>	<b>Tax Rate (Mills)</b>	<b>Real Estate Levy</b>	<b>Current Year Collections</b>	<b>Percent Current Year Collections</b>	<b>Prior Years' Collections</b>	<b>Percent Total Collections</b>
2014	10.3110	\$8,386,872	%7,824,834	93.30%	\$454,325	98.72%
2015	10.3110	8,353,938	7,937,356	95.01%	509,429	101.11%
2016	10.3110	8,287,569	7,829,003	94.47%	340,330	98.57%
2017	10.3110	8,286,313	7,814,532	94.80%	427,196	99.46%
2018	11.5800	8,766,606	8,439,689	96.27%	326,755	99.99%

Source: Borough Officials.

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## TEN LARGEST TAXPAYERS

The largest taxpayers within the Borough, ranked by assessed valuation of real estate for 2019, are set forth below:

<b>Taxpayer</b>	<b>2019 Assessed Valuations</b>
Pottstown Center LP	\$9,721,300
Pottstown Center LP	8,987,580
B&P Limited Partners	3,330,610
Galman Hillside LP	3,200,000
Dana Driveshaft Products LLC	3,150,000
HCR Manorcare Properties LLC	2,813,200
Pottstown Lodging Partners LP	2,573,000
Spring Hill Realty	2,525,680
Hanover YS Manor LLC	2,311,400
Pottstown Plaza Assoc LP	2,303,760
	<u>\$40,916,530</u>

Source: Borough Officials

The ten largest taxpayers represent 5.4% of the Borough's total assessed valuation for 2019.

### **Future Financing**

There are no expected capital borrowings over the next three to five years planned by the Borough and Authority.

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## DEBT SUMMARY

### Debt Statement

The table below shows the debt of the Borough of Pottstown as of September 17, 2019.

### BOROUGH OF POTTSTOWN STATEMENT OF INDEBTEDNESS (As of September 17, 2019)

	<u>Outstanding</u>
<b>Electoral Debt</b>	\$0
<b>Nonelectoral Debt</b>	
General Obligation Bonds, Series of 2017	\$2,065,000
<b>TOTAL NONELECTORAL DEBT</b>	2,065,000
<b>TOTAL ELECTORAL AND NONELECTORAL DEBT</b>	<u>\$2,065,000</u>
<b>LEASE RENTAL DEBT <sup>(1)</sup></b>	
Guaranteed Water Revenue Bonds, Series of 2019*	\$7,490,000
Guaranteed Sewer Revenue Bonds, Series of 2016*	6,125,000
Guaranteed Water Revenue Bonds, Series A of 2016*	1,320,000
Guaranteed Sewer Revenue Bonds, Series of 2012*	2,530,000
<b>Less: Credit for Self-Supporting Debt (Authority)</b>	<u>(17,465,000)</u>
<b>TOTAL LEASE RENTAL DEBT</b>	<u>\$0</u>
<b>TOTAL ELECTORAL, NONELECTORAL AND LEASE RENTAL DEBT</b>	\$2,065,000
<b>OVERLAPPING DEBT</b>	
Pottstown School District <sup>(2)</sup>	59,236,000
Montgomery County <sup>(3)</sup>	<u>6,597,876</u>
<b>Total Overlapping Debt</b>	<u>\$65,833,876</u>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<u><u>\$65,833,876</u></u>

<sup>(1)</sup> Includes the debt of the Pottstown Borough Authority.

<sup>(2)</sup> Borough's share (100%) of the estimated \$59,236,000 general obligation debt of the Pottstown School District as of September 1, 2019.

<sup>(3)</sup> Borough's proportional share (1.3%) of the \$515,776,782 general obligation debt of Montgomery County as of September 1, 2019.

\* Self liquidating debt by Department of Community Economic Development.

<b><u>Debt Ratios - Non-Electoral</u></b>	<b><u>Direct</u></b>	<b><u>Direct &amp; Overlapping</u></b>
Per Capita (2010 population) (14,959)	\$0	\$4,401
Percent 2018 Assessed Value	0.27%	8.53%
Percent 2018 Market Value	0.21%	6.81%

## **Types of Indebtedness under the Act**

The Act establishes three forms of debt for a local government unit: (i) electoral debt (debt incurred with the approval of the electors for which there is no limitation on the amount that may be so incurred), (ii) nonelectoral debt (debt of a local government unit not being electoral or lease rental debt for which the limitation on all such net debt which may be incurred is 250 percent of the borrowing base for the Borough), and (iii) lease rental debt (the principal amount of municipal authority debt or debt of another local government unit to be repaid by the local government unit pursuant to a lease, subsidy contract guarantee or other form of agreement where such debt is or may be payable out of the tax revenues and other general revenues; the limitation on all such net lease rental debt which may be incurred, including any net nonelectoral debt incurred, is 350 percent of the borrowing base for the Borough). Any debt which is approved by the Pennsylvania Department of Community and Economic Development as subsidized or self-liquidating may be deducted or excluded from the determination of any such debt incurred in determining the net debt of the local governmental unit to which such limitations are applicable. Certain other deductions are allowed in determining net debt.

## **Debt Limit and Remaining Borrowing Capacity**

The statutory borrowing limit of the Borough under the Act is computed as a percentage of the Borough's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of total "Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The Borough calculates its present borrowing base and borrowing capacity as follows:

A calculation of the Borrowing Base and Borrowing Capacity of the Borough is shown below:

### **Calculation of Borrowing Base**

	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Total Revenue and Other Financing Sources</b>	<b>\$31,601,841</b>	<b>\$32,097,447</b>	<b>\$33,263,584</b>
<b>Deduct Excludable Items:</b>			
1. State and federal subsidies and reimbursements related to a particular projected financed by debt.	0	0	0
2. Revenues, receipts and assessments, etc. pledged for self-liquidating debt.	9,138,157	9,506,710	9,882,263
3. Interest on sinking funds	0	0	0
4. Grants and gifts-in-aid	0	0	0
5. Nonrecurring receipts	0	0	0
<b>Total Revenues as defined in the Act</b>	<b>\$22,463,684</b>	<b>\$22,590,737</b>	<b>\$23,381,321</b>
<b>Total Revenues for the three year period ending 12/31/2018</b>			<b>\$68,435,742</b>
<b>Borrowing Base – Arithmetic average of Total Revenues</b>			<b>\$22,811,914</b>
<b>Non-Electoral Debt Capacity @250%</b>			<b>\$57,029,785</b>
<b>Non-Electoral and Lease Rental Debt Capacity @ 350%</b>			<b>\$79,841,699</b>

### Calculation of Borough Debt Capacity

A. Electoral Debt	\$0
B. Non-electoral Debt	
1. Computation of Non-electoral Debt	
a. Outstanding Principal	\$2,065,000
b. Less: Deductions	0
c. Net Non-electoral Debt	<u>\$2,065,000</u>
2. Computation of Non-electoral Borrowing Capacity	
a. Debt Limitations – 250% of Borrowing Base	\$57,029,785
b. Less: Outstanding Net Non-electoral Debt	(2,065,000)
c. Remaining Non-Electoral Borrowing Capacity	<u>\$54,964,785</u>
C. Lease Rental Debt	
1. Computation of Lease Rental Debt	
a. Outstanding Principal	\$17,465,000
b. Less: Deductions (Qualified as Self-liquidating)	(17,465,000)
c. Net Lease Rental Debt	<u>\$0</u>
2. Computation of Lease Rental and Non-electoral Borrowing Capacity	
a. Debt Limitation – 350% of Borrowing Capacity	\$79,841,699
b. Less: Outstanding Lease Rental and Net Non-electoral Debt	(2,065,000)
c. Remaining Lease Rental and Non-electoral Borrowing Capacity	<u>\$77,776,699</u>

### **Largest Employers**

The following table shows the 10 largest employers in the County.

#### **Employer**

---

Merck Sharp & Dohme Corp.  
Abington Memorial Hospital  
State Government  
Main Line Health Systems  
Giant Food Stores LLC  
SEI Investments Company  
United Parcel Service Inc.  
Smithkline Beecham Corp.  
Montgomery County  
Federal Government

Source: Pennsylvania Department of Labor & Industry, 4th quarter 2018.

**INDUSTRY OF EMPLOYMENT**  
**Philadelphia, PA-NJ Primary Metropolitan Statistical Area**

Establishment Data	Industry Employment				Net Change From:	
	Jun 2019	May 2019	Apr 2019	June 2018	May 2019	June 2018
TOTAL NONFARM	2,990,500	2,981,900	2,974,200	2,954,600	8,600	35,900
TOTAL PRIVATE	2,651,900	2,639,700	2,630,000	2,619,700	12,200	32,200
GOODS PRODUCING	312,300	307,600	304,900	303,300	4,700	9,000
Construction, Natural Resources, and Mining	128,800	126,000	123,200	120,600	2,800	8,200
Manufacturing	183,500	181,600	181,700	182,700	1,900	800
Durable Goods	96,300	95,300	95,700	95,400	1,000	900
Non-Durable Goods	87,200	86,300	86,000	87,300	900	-100
SERVICE-PROVIDING	2,678,200	2,674,300	2,669,300	2,651,300	3,900	26,900
PRIVATE SERVICE-PROVIDING	2,339,600	2,332,100	2,325,100	2,316,400	7,500	23,200
Trade, Transportation, and Utilities	521,200	518,200	515,900	525,000	3,000	-3,800
Wholesale Trade	117,200	116,400	115,900	118,300	800	-1,100
Retail Trade	291,100	289,000	288,700	297,500	2,100	-6,400
Transportation, Warehousing, and Utilities	112,900	112,800	111,300	109,200	100	3,700
<b>Information</b>	48,800	48,100	47,800	49,400	700	-600
<b>Financial Activities</b>	218,100	215,700	214,600	218,000	2,400	100
Finance and insurance	177,500	175,800	175,600	178,600	1,700	-1,100
<b>Professional and Business Services</b>	478,100	475,200	473,900	470,800	2,900	7,300
Professional and technical services	238,100	236,200	237,700	228,700	1,900	9,400
Administrative and waste services	176,600	176,800	173,500	178,100	-200	-1,500
<b>Education and Health Services</b>	645,000	667,500	674,700	644,100	-22,500	900
Health care and social assistance	534,200	534,400	534,000	525,200	-200	9,000
Hospitals	143,900	144,100	144,400	143,100	-200	800
<b>Leisure and Hospitality</b>	294,400	283,700	275,600	285,700	10,700	8,700
Accommodation and food services	233,000	227,500	222,900	225,100	5,500	7,900
<b>Other Services</b>	125,000	123,700	122,600	123,400	1,300	1,600
<b>Government</b>	338,600	342,200	344,200	334,900	-3,600	3,700
Federal Government	51,900	51,600	51,700	51,200	300	700
State Government	52,600	55,000	56,100	52,200	-2,400	400
Local Government	234,100	235,600	236,400	231,500	-1,500	2,600
Data benchmarked to March 2018	***Data changes of 100 may be due to rounding***					

Source: Center for Workforce Information & Analysis



The table below shows trends in labor force, employment and unemployment for Montgomery County and the Commonwealth.

**RECENT TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT\***

	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2019(1)</b></u>	<b>Compound Average Annual % Rate</b>
<b>Montgomery County</b>							
Civilian Labor Force (000)	434.4	441.3	447.7	448.7	449.4	451.4	0.77%
Employment (000)	414.4	423.5	429	431.4	434	439.8	1.20%
Unemployment (000)	20.1	17.8	18.7	17.3	15.4	11.6	-10.41%
Unemployment Rate	4.60%	4.00%	4.20%	3.90%	3.40%	2.60%	
<b>Pennsylvania</b>							
Civilian Labor Force (000)	6,378.0	6,424.0	6,472.0	6,427.0	6,424.0	6,421.0	0.13%
Employment (000)	6,009.0	6,094.0	6,120.0	6,112.0	6,149.0	6,215.0	0.68%
Unemployment (000)	370.0	330.0	352.0	316.0	276.0	206.0	-11.05%
Unemployment Rate	5.80%	5.10%	5.40%	4.90%	4.30%	3.20%	

(1)As of April 2019.

Source: Center for Workforce Information & Analysis

### **Commercial Activity**

The table below shows 2013-2017 trends for retail sales in Montgomery County, the PMSA and the Commonwealth.

#### **TOTAL RETAIL SALES (\$000)**

	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Montgomery County	13,453,443	14,129,459	15,080,841	15,685,831	19,406,393
PMSA	89,309,764	91,259,939	92,944,956	96,525,422	105,082,759
Pennsylvania	187,412,600	199,975,258	198,215,135	207,887,941	213,005,475

Source: Sales and Marketing Management Magazine

### **Transportation Facilities**

The Pottstown area has an excellent transportation system. The Pottstown Expressway (Route 422) provides easy access from Pottstown to King of Prussia and Philadelphia. Driving time to King of Prussia is about 20 to 25 minutes and to Philadelphia, less than an hour.

Pottstown is less than 20 minutes from the Downingtown exit of the Pennsylvania East-West Turnpike and about 25 minutes from the Northeast Turnpike Extension.

Two airports, Pottstown and Limerick, provide passenger and freight service. The Borough is responsible for the maintenance of the Pottstown Municipal Airport. Philadelphia International Airport is less than 20 minutes from Pottstown by air and an hour away by car.

### **Higher Education**

Students who plan to pursue higher education can find opportunities within a 25 mile range of the Borough at any one of the following colleges or universities:

- Ursinus College, in Collegeville, founded in 1869 is a privately supported coeducational college offering a four-year broad academic program with several major fields of study.
- Albright College is located in Reading, Berks County and offers a four-year academic program in the liberal arts, as well as innovative programs beyond the baccalaureate degree.
- West Chester State University, founded in 1871, is situated in Chester County. It is a public-supported coeducational liberal arts and teachers college offering career development programs in technical and professional areas.
- Pennsylvania State University, offering undergraduate and associate degrees in liberal arts, technical, and professional fields, has campuses located west of Reading and in Malvern.
- Montgomery County Community College is a publicly supported Junior College in the Borough and Blue Bell offering transfer program leading to degrees in Associate of Arts and in Science.

### **School District**

The Pottstown Area School District is coterminous with the Borough and consists of six public schools - four elementary, one middle school and one senior high school having a total enrollment of approximately 3,330 students. There are several private elementary schools in the Pottstown area, as well as the Hill School, a private college preparatory school for boys and girls in grades 9 through 12.

## **Health Care**

Residents of the Borough are afforded health care by the 248-bed Pottstown Memorial Medical Center, offering a full range of medical services. The medical staff at the facility numbers approximately 225 doctors practicing more than 30 medical specialties. The Medical center employs approximately 1300 persons.

## **Utilities**

Electric and gas services are provided by Exelon Corporation (formerly PECO). Verizon provides local telephone services to the residents of the School District. Public water and sewer service is provided by the Pottstown Borough Authority.

# **TOWNSHIP OF LOWER POTTS GROVE**

## **General**

Lower Pottsgrove Township is located in the northwestern section of Montgomery County, adjacent to, and north and east of, the Borough of Pottstown. The Township is also bounded by East Coventry Township (Chester County) on the south, Limerick Township on the southeast and Upper Pottsgrove Township on the north.

The Township had a 2010 population of 12,059 according to the U.S. Bureau of the Census and is located approximately 35 to 40 miles northwest of the City of Philadelphia, approximately 25 miles southwest of the City of Allentown and 18 miles southeast of the City of Reading. The Township is primarily residential and rural in nature, with some commercial establishments along East High Street, which runs east from the Borough of Pottstown.

The Philadelphia Electric Company Limerick Nuclear Power Plant is located approximately one mile east of the Township and has two reactors in operation.

### **Population Trends**

	<b><u>1990</u></b>	<b><u>2000</u></b>	<b><u>2010</u></b>
Lower Pottsgrove Township	8,808	11,213	12,059
Montgomery County	678,111	750,097	799,874
Pennsylvania	11,881,643	12,281,054	12,702,379

Source: U.S. Bureau of Census. 2010 Census.

# **TOWNSHIP OF WEST POTTS GROVE**

## **General**

The 2.57 square mile Township is located in the extreme western edge of Montgomery County on the borders of Chester and Berks County. The Township is bordered by North Coventry Township (Chester County), Pottstown Borough, Upper Pottsgrove Township (Montgomery County), and Douglass Township (Berks County) and includes the unincorporated community of Stowe.

The Township had a 2010 population of 3,874 and is located approximately 35 to 40 miles northwest of the City of Philadelphia, approximately twenty-five miles southeast of the City of Reading.

The Township is primarily residential and rural in nature with a few industries and some commercial areas.

### Population Trends

	<u>1990</u>	<u>2000</u>	<u>2010</u>
West Pottsgrove Township	4,227	3,815	3,874
Montgomery County	678,111	750,097	799,874
Pennsylvania	11,881,643	12,281,054	12,702,379

Source: U.S. Bureau of Census. 2010 Census.

### TOWNSHIP OF UPPER POTTS GROVE

#### General

The Township of Upper Pottsgrove is 5.1 square miles and is located on the western border of Montgomery County. The Township is bordered by Douglas and New Hanover Townships to the North, Pottstown Borough and West Pottsgrove Township to the South, and Lower Pottsgrove Township to the east.

The Township is primarily residential and rural in nature with a few industries and some commercial areas.

### Population Trends

	<u>1990</u>	<u>2000</u>	<u>2010</u>
Upper Pottsgrove Township	3,315	4,102	5,315
Montgomery County	678,111	750,097	799,874
Pennsylvania	11,881,643	12,281,054	12,702,379

Source: U.S. Bureau of Census. 2010 Census.

### NORTH COVENTRY TOWNSHIP

#### General

The Township of North Coventry is located in Chester County and covers an area of approximately 10.78 square miles.

The Township is primarily residential and rural in nature with a few industries and some commercial areas.

### Population Trends

	<u>1990</u>	<u>2000</u>	<u>2010</u>
North Coventry Township	7,506	7,381	7,866
Montgomery County	678,111	750,097	799,874
Pennsylvania	11,881,643	12,281,054	12,702,379

Source: U.S. Bureau of Census. 2010 Census.

**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

[Proposed Form of Bond Counsel Opinion]

\_\_\_\_\_, 2019

Pottstown Borough Authority  
Pottstown, PA 19464

Re: Pottstown Borough Authority  
\$\_\_\_\_\_ Guaranteed Water Revenue Bonds,  
Series of 2019

Ladies and Gentlemen:

You have requested our opinion as to the legality of the above guaranteed water revenue bonds (the "Bonds"). The Bonds are issued by the Pottstown Borough Authority, Montgomery County, Pennsylvania (the "Issuer") under the provisions of the Municipality Authorities Act, 53 Pa. C.S. §5601 et seq., of the Commonwealth of Pennsylvania ("Pennsylvania") as amended and supplemented (the "Act") and pursuant to a resolution adopted by the Board of Directors of the Issuer on September 17, 2019 (the "Resolution"). The Bonds are being issued, in fully registered form, in denominations of \$5,000 or integral multiples thereof, under and pursuant to the provisions of a Trust Indenture dated as of June 15, 1995 (the "Original Indenture") between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee") as supplemented from time to time, including by a Ninth Supplemental Trust Indenture dated as of \_\_\_\_\_, 2019 (the Ninth Supplemental Trust Indenture, together with the Original Indenture as previously supplemented are referred to herein as the "Indenture").

The Bonds are being issued for the purpose of undertaking (1) the current refunding of the Authority's Water Revenue Bond, Series of 2007, (2) the current refunding of the Authority's Guaranteed Water Revenue Bonds, Series of 2012 and (3) the payment of the costs of issuing the Bonds (collectively, the "Project").

The Borough of Pottstown (the "Borough") has entered into a Guaranty Agreement dated as of \_\_\_\_\_, 2019 (the "Guaranty") among the Issuer, the Borough and the Trustee under which the Borough has covenanted that (i) it will include in its budget for each fiscal year in which debt service in respect of the Bonds is payable, an amount equal to the debt service on the Bonds payable in such fiscal year, (ii) it will appropriate such amounts for payment to the Trustee of obligations of the Borough under the Guaranty, and (iii) it will duly and punctually pay or cause to be paid

to the Trustee all such amounts. For such budgeting, appropriation and payment, the Borough has irrevocably pledged its full faith, credit and taxing power.

The Authority in the Resolution has designated the Bonds as qualified tax-exempt obligations pursuant to Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the "Code") and has made certain representations and covenants in the Resolution necessary to cause the Bonds to continue to be obligations described in such Section of the Code during the period in which the Bonds are outstanding.

As bond counsel, we have examined the relevant provisions of the Constitution of Pennsylvania; the Act; the Pennsylvania Local Government Unit Debt Act, as amended (the "Debt Act"); the Resolution as to the authorization, issuance and sale of the Bonds; the proceedings, including that certain Ordinance of the Borough enacted September 9, 2019 (the "Ordinance") filed by the Borough with the Pennsylvania Department of Community and Economic Development (the "Department") and its certificate of approval with respect to the incurrence of lease rental debt by the Borough; the Acts of Assembly pursuant to which the Bonds are authorized, issued and sold, and certain statements, affidavits and other documents which we have considered pertinent.

In rendering this opinion we have also examined and relied upon (i) the opinion of Wolf, Baldwin & Associates, P.C., counsel to the Borough, with respect, among other things, to the due enactment by the Borough of the Ordinance and (ii) the accuracy of the statements and representations and the performance of the covenants of the Issuer set forth in the Resolution, the General Certificate of the Issuer, and the Issuer's Tax Certificate and Agreement delivered on this date in connection with the issuance of the Bonds.

Based upon the foregoing, we are of the opinion that:

1. The Authority has been duly and legally incorporated and is validly existing under the Act and has corporate power and lawful authority to execute and deliver the Indenture, to undertake the Project, and to issue and deliver the Bonds.
2. The Borough has duly guaranteed the payment of the principal of, and the interest on, the Bonds to the extent provided in the Guaranty, and for such payment the Borough has pledged its full faith, credit and taxing power.
3. The Indenture has been duly authorized, executed and delivered by the Authority and is the legal, valid and binding obligation of the Authority and is enforceable in accordance with its terms.
4. The Guaranty has been duly authorized, executed and delivered by and on behalf of the Borough and constitutes the valid and legally binding obligation of the Borough, enforceable against the Borough in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or

other laws or equitable principles now or hereafter affecting the enforcement of creditors' rights generally.

5. The Bonds have been validly authorized, executed and delivered by the Authority and, when authenticated by the Trustee, constitute valid and binding limited obligations of the Authority entitled to the benefits and security of the Indenture and are enforceable in accordance with their terms.

6. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. This exemption does not extend to gift, succession or inheritance taxes or to other taxes not levied or assessed directly on the Bonds.

7. Interest on the Bonds is excludable from gross income for federal income tax purposes. The opinion set forth in this paragraph is subject to the condition that the certifications of the Authority are accurate and that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed upon individuals. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

8. Banks, thrift institutions and other financial institutions which purchase the Bonds may take into account, as a deductible expense in calculating their federal income tax liability, 80 percent of their interest expense allocable to ownership of the Bonds.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with "excess net passive income", individual recipients of Social Security or Railroad Retirement Benefits. We express no opinion as to such collateral federal income tax consequences and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds.

The initial public offering price of Bonds of certain maturities (the "Discount Bonds") is less than the amount payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds and the amount payable at maturity constitutes original issue discount. We are of the opinion that the appropriate portion of such original issue discount allocable to the original and each



subsequent holder of a Discount Bond will, upon sale, exchange, redemption or payment at maturity of such Discount Bond, be treated as interest and excluded from gross income for federal income tax purposes to the same extent as the stated interest on the Discount Bonds.

In providing this opinion, we advise you as follows:

(a) Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue premium and purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

(b) The enforceability (but not the validity) of the documents mentioned herein may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws now or hereafter enacted by any state or the federal government affecting the enforcement of creditors' rights generally, and "enforceable in accordance with its (their) terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

(c) The obligations of the Authority under the Indenture and the Bonds do not create an indebtedness or pledge the credit or taxing power of the United States of America, the Commonwealth of Pennsylvania or any political subdivision thereof, except the Borough pursuant to the Guaranty, and the Bonds are limited obligations of the Authority payable solely from the moneys pledged therefor under the Indenture.

Very truly yours,

Lamb McErlane PC

**APPENDIX C**  
**BOND AMORTIZATION SCHEDULE**

# BOND AMORTIZATION SCHEDULE

**\$7,490,000\* Guaranteed Water Revenue Bonds, Series of 2019**

**Dated: Date of Delivery**

**Due: December 15, 2019; Thereafter  
On June 15, as shown below**

<u>Date</u>	<u>Principal Maturities</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Annual Debt Service</u>
12/15/2019				
6/15/2020				
12/15/2020				
6/15/2021				
12/15/2021				
6/15/2022				
12/15/2022				
6/15/2023				
12/15/2023				
6/15/2024				
12/15/2024				
6/15/2025				
12/15/2025				
6/15/2026				
12/15/2026				
6/15/2027				
12/15/2027				
TOTAL				

**APPENDIX D**  
**FINANCIAL REPORT OF THE AUTHORITY YEAR ENDED DECEMBER 31, 2018**

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**

**ANNUAL FINANCIAL REPORT**

***Year Ended December 31, 2018***



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
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YEAR ENDED DECEMBER 31, 2018

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## **FINANCIAL SECTION**



## ***Independent Auditors' Report***

To the Council Members  
Pottstown Borough Authority  
Pottstown, Pennsylvania

We have audited the accompanying financial statements of the business type activities and each major fund of the Pottstown Borough Authority (a component unit of the Borough of Pottstown) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pottstown Borough Authority's basic financial statements as listed in the table of contents.

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

The Pottstown Borough Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 an opinion 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Council Members  
Pottstown Borough Authority  
Pottstown, Pennsylvania

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of the Pottstown Borough Authority as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9 and the schedule of the authority's proportionate share of the net pension liability on page 33, the schedule of the authority's contributions on page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Maillie LLP".

Oaks, Pennsylvania  
April 17, 2019

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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The Pottstown Borough Authority, hereafter referred to as the "Authority," hereby presents its financial statements developed in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, entitled *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments* (hereafter "GASB 34"), and its related standards. GASB 34 enhances information provided to the users of these financial statements. This section of the financial reporting package presents a discussion and analysis of the Authority's financial performance during the calendar year that ended on December 31, 2018. Please read it in conjunction with the Authority's financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the audited financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using the full accrual method of accounting, as utilized by similar business type activities in the private sector. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The **Statement of Net Position** presents the financial position of the Authority on a full accrual historical cost basis. The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the **Statement of Revenues, Expenses and Changes in Net Position** presents the results of the business-type activities over the course of the calendar year and information as to how the net position changed during the year. All changes in net position are reported as soon as the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. The Authority receives lease rentals from Pottstown Borough for use of its sewer system to cover its debt service and administrative costs.

The **Statement of Cash Flows** presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, or when an obligation arises, or the depreciation of the capital assets.

The **Notes to the Financial Statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, long-term debt and capital assets and subsequent events, if any.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**FINANCIAL ANALYSIS**

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding year-to-year variances are included in each section by the name of the statement or account.

**Condensed Statements of Net Position**

	December 31,		Variance	
	2018	2017	Dollars	%
<b>ASSETS</b>				
Current assets	\$ 3,498,068	\$ 5,000,819	\$ (1,502,751)	-30.1%
Restricted assets	12,227,609	14,130,994	(1,903,385)	-13.5%
Capital assets, net	58,464,712	55,769,412	2,695,300	4.8%
Other assets	4,916	6,022	(1,106)	-18.4%
<b>TOTAL ASSETS</b>	<u>74,195,305</u>	<u>74,907,247</u>	<u>(711,942)</u>	-1.0%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding, net of accumulated amortization	628,953	813,323	(184,370)	-22.7%
Deferred outflows of resources, pension	993,241	674,843	318,398	47.2%
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>1,622,194</u>	<u>1,488,166</u>	<u>134,028</u>	9.0%
<b>LIABILITIES</b>				
Current liabilities	6,425,615	7,596,371	(1,170,756)	-15.4%
Long-term liabilities	20,373,459	25,432,233	(5,058,774)	-19.9%
<b>TOTAL LIABILITIES</b>	<u>26,799,074</u>	<u>33,028,604</u>	<u>(6,229,530)</u>	-18.9%
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources, pension	-	88,863	(88,863)	-100.0%
<b>NET POSITION</b>				
Net investment in capital assets	47,242,460	40,850,620	6,391,840	15.6%
Restricted for debt service	12,227,609	14,130,994	(1,903,385)	-13.5%
Unrestricted	(10,451,644)	(11,703,668)	1,252,024	-10.7%
<b>TOTAL NET POSITION</b>	<u>\$ 49,018,425</u>	<u>\$ 43,277,946</u>	<u>\$ 5,740,479</u>	13.3%

**Current Assets** for the combined Water and Sewer Funds decreased by \$1.5 million or 30.1% in 2018. Sewer and water cash and cash equivalents each decreased by \$2 hundred thousand to fund capital improvements. In addition, the water fund liquidated \$1.5 million of unrestricted investments and the sewer capital fund received \$1.3 million in contributions from the sewer operating fund to fund the capital improvement program.

**Restricted Assets** decreased by \$1.9 million or 13.5% due to the liquidation of investments to pay the debt service for the 1991 series sewer bonds. In addition, \$.7 million was transferred from the debt service reserve account to the sewer construction account and disbursed for capital projects.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

---

**Capital Assets** increased by \$2.6 million or 4.8%. A \$6.3 million sewer and water line replacement was completed during 2018. Construction in progress (CIP), net of projects completed and capitalized, decreased \$.2 million which consisted of a \$.3 million decrease in sewer and a \$.1 million increase in water CIP. The increase is offset by depreciation and amortization.

**Deferred Outflows of Resources** is slightly higher than 2017. Amortization of losses on bond refunding is offset by recognition of the Authority's share of the non-uniformed pension liability.

**Liabilities** decreased by \$6.2 million or 18.9%. Current liabilities decreased by \$1.1 million as a result of the payment of \$.9 million of capital invoices related to the painting of a water storage tank, water and sewer main replacements and other capital projects. Long-term liabilities decreased \$5.0 million; of that amount, long term debt decreased by \$4.5 million due to scheduled debt principal payments and amortization of bond premiums.

**Deferred Inflows of Resources** decreased by \$.1 million as a result of recognizing the Authority's share of the non-uniformed pension liability.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	December 31,		Variance	
	2018	2017	Dollars	%
OPERATING REVENUES	\$ 9,323,057	\$ 8,889,591	\$ 433,466	4.9%
OPERATING EXPENSES				
General government	558,655	570,153	(11,498)	-2.0%
Public works, water sanitation	2,576,232	2,398,519	177,713	7.4%
Benefits and insurance	1,182,060	1,072,632	109,428	10.2%
Depreciation and amortization	2,147,551	3,233,401	(1,085,850)	-33.6%
Administration and general expenses	12,979	101,727	(88,748)	-87.2%
Management fee	396,958	386,744	10,214	2.6%
TOTAL OPERATING EXPENSES	6,874,435	7,763,176	(888,741)	-11.4%
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	159,887	679,834	(519,947)	-76.5%
Realized and unrealized gains on investments	94,725	170,229	(75,504)	-44.4%
Capital grants and contributions	1,477,039	269,243	1,207,796	448.6%
Increase in accretion on bonds	(518,228)	(632,883)	114,655	18.1%
Interest expense	(821,566)	(875,255)	53,689	6.1%
Contribution from Borough sewer operating fund	3,100,000	1,300,000	1,800,000	138.5%
Contribution to Borough public works facility	(200,000)	(200,000)	-	0.0%
Contribution (to) from Borough general fund	-	(23,173)	23,173	100.0%
TOTAL NONOPERATING REVENUES (EXPENSES)	3,291,857	687,995	2,603,862	-378.5%
CHANGE IN NET POSITION	\$ 5,740,479	\$ 1,814,410	\$ 3,926,069	216.4%

**Operating Revenues** increased by \$.4 million or 4.9%. Water collections increased by \$.25 million due to a water rate increase enacted in July 2017. Royalties and other rentals increased slightly and consist of rentals received for cell phone towers located on the Authority's water storage tanks. There was a one-time contribution of \$83k made by the cell tower vendors for the repainting of a water tower on which they lease space, as well as an additional capacity purchase by a Township for \$32k.

**POTTSTOWN BOROUGH AUTHORITY**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**Total Operating Expenses** decreased by \$.8 million in 2018 or 11.4%. Public works, water sanitation expense increased by \$.2 million or 7.4%. The increase results from higher chemical, supplies and maintenance costs at the water and wastewater treatment plants. Benefits are \$.1 million higher in 2018 due to increases in health care and pension expense

**Nonoperating Revenues (Expenses)** increased by \$2.2 million or 322.8% in 2018. Investment earnings decreased by \$.5 million as a result of the \$.5 million premium received in 2017 from the termination of a guaranteed investment contract (GIC) held by the sewer debt reserve trust account. Capital grants and contributions increased by \$1.2 million due to higher capital project contributions from the three townships that participate in the cost sharing of the sewer plant. The increase in accretion for the 1991 series sewer revenue bonds was \$.1 million less than in 2017 resulting in a reduction in nonoperating expenses. The contribution from the sewer operating fund to fund capital projects increased by \$1.8 million in 2018. Although capital spending increased over 2017 the Authority was able to fund the spending by moving excess funds in the debt service reserve account to the construction account. The 2018 Due to the Borough general fund was to reimburse the Borough for the Authority's proportional share of capital improvements to the Borough Hall. During 2018, the fourth of ten \$.2 million annual contributions was made to the Borough for the public works facility.

**Capital Assets and Long-Term Debt**

During 2018, total capital spending for sewer projects was \$4.1 million and \$1.2 million for water capital projects.

The Authority intends to fund capital spending with internally generated cash and does not intend additional borrowings in the near future. They approved a water rate increase in 2018 to be effective January 1 in each year 2019, 2020 and 2021. The average residential customer's quarterly bill will increase by 5% each year. The last increase was in 2017. With this rate increase, cash in restricted construction accounts and operating reserves will be adequate to fund existing capital programs at the Water Treatment Plant the Wastewater Treatment Plant and planned infrastructure projects.

The Authority's Planning and Capital Projects Committee (Committee) maintains a Five Year Capital Plan for the plants and the water and sewer infrastructure. Significant authorized capital projects include:

**POTTSTOWN BOROUGH AUTHORITY**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**Water**

Ongoing water main replacements (current program complete in 2018)	\$2,700,000
Paint water tanks	\$1,200,000
PLC migration (complete in 2018)	\$200,000
Kepler Road Pump Station upgrades	\$200,000
Commission New Hanover tank	\$100,000
Water plant security and communications (complete in 2018)	\$600,000

**Sewer**

Retire existing dryer and replace with new technology (complete in 2019)	\$4,900,000
Ongoing sewer main replacement (current program complete in 2018)	\$3,000,000
Replace bar screens (starting late 2019)	\$500,000
Sewer plant security and communications (complete in 2018)	\$600,000

Additional major sewer plant, water plant and infrastructure projects included in the Five Year Capital Plan have been approved conceptually but the funding has not yet been authorized by the Authority.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the financial transactions that occur. If you have questions about this report or need additional information, please feel free to contact:

Director of Finance/Authority Bookkeeper  
Borough of Pottstown  
100 East High Street  
Pottstown, PA 19464-9525  
Phone: (610) 970-6534  
Fax: (610) 970-6595



**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF NET POSITION  
DECEMBER 31, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and cash equivalents	\$ 95,241	\$ 748,802	\$ 844,043
Investments	-	765,125	765,125
Prepaid expenses	-	235,342	235,342
Trade receivables, net	-	1,026,165	1,026,165
Other receivables, net	590,621	36,772	627,393
TOTAL CURRENT ASSETS	<u>685,862</u>	<u>2,812,206</u>	<u>3,498,068</u>
CASH AND INVESTMENTS, restricted			
Cash and cash equivalents	3,569,363	2,183,005	5,752,368
Investments	6,475,241	-	6,475,241
TOTAL CASH AND INVESTMENTS, restricted	<u>10,044,604</u>	<u>2,183,005</u>	<u>12,227,609</u>
CAPITAL ASSETS			
Land	36,650	330,179	366,829
Construction in progress	3,161,884	1,257,360	4,419,244
Buildings and building improvements	34,334,163	-	34,334,163
Machinery and equipment	1,480,096	1,213,621	2,693,717
Infrastructure	12,743,471	41,001,270	53,744,741
Accumulated depreciation	(22,071,071)	(15,022,911)	(37,093,982)
TOTAL CAPITAL ASSETS	<u>29,685,193</u>	<u>28,779,519</u>	<u>58,464,712</u>
OTHER ASSETS			
Unamortized bond discounts, net	-	4,916	4,916
TOTAL ASSETS	<u>40,415,659</u>	<u>33,779,646</u>	<u>74,195,305</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding, net of accumulated amortization	354,980	273,973	628,953
Deferred outflows of resources, pension activity	-	993,241	993,241
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>354,980</u>	<u>1,267,214</u>	<u>1,622,194</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 40,770,639</u>	<u>\$ 35,046,860</u>	<u>\$ 75,817,499</u>

*See accompanying notes to the basic financial statements.*

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 171,908	\$ 171,908
Accrued interest	63,325	8,776	72,101
Unearned revenue	-	154,526	154,526
Current portion of bonds payable	4,415,980	1,611,100	6,027,080
TOTAL CURRENT LIABILITIES	<u>4,479,305</u>	<u>1,946,310</u>	<u>6,425,615</u>
LONG-TERM LIABILITIES			
Unamortized bond premiums, net	684,186	91,660	775,846
Bonds payable, long-term portion	10,230,820	7,049,984	17,280,804
Net pension liability	-	2,266,537	2,266,537
Compensated absences	-	50,272	50,272
TOTAL LONG-TERM LIABILITIES	<u>10,915,006</u>	<u>9,458,453</u>	<u>20,373,459</u>
NET POSITION			
Net investment in capital assets	24,753,791	22,488,669	47,242,460
Restricted for debt service	10,044,604	2,183,005	12,227,609
Unrestricted	(9,422,067)	(1,029,577)	(10,451,644)
TOTAL NET POSITION	<u>25,376,328</u>	<u>23,642,097</u>	<u>49,018,425</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 40,770,639</u>	<u>\$ 35,046,860</u>	<u>\$ 75,817,499</u>

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Rental income, sewer system	\$ 2,661,896	\$ -	\$ 2,661,896
Charges for services	-	6,339,219	6,339,219
Royalties and other rentals	-	205,850	205,850
Grants and contributions	32,592	83,500	116,092
TOTAL OPERATING REVENUES	<u>2,694,488</u>	<u>6,628,569</u>	<u>9,323,057</u>
OPERATING EXPENSES			
General government	-	558,655	558,655
Public works, water sanitation	-	2,576,232	2,576,232
Benefits and insurance	-	1,182,060	1,182,060
Depreciation and amortization	1,018,802	1,128,749	2,147,551
Administrative and general	6,063	6,916	12,979
Management fees	-	396,958	396,958
TOTAL OPERATING EXPENSES	<u>1,024,865</u>	<u>5,849,570</u>	<u>6,874,435</u>
OPERATING INCOME	<u>1,669,623</u>	<u>778,999</u>	<u>2,448,622</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	83,733	76,154	159,887
Realized and unrealized gains on investments	88,082	6,643	94,725
Capital grants and contributions	1,477,039	-	1,477,039
Increase in accretion of bonds	(518,228)	-	(518,228)
Interest expense	(466,321)	(355,245)	(821,566)
Contribution from Borough sewer operating fund	3,100,000	-	3,100,000
Contribution to Borough public works facility	(100,000)	(100,000)	(200,000)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,664,305</u>	<u>(372,448)</u>	<u>3,291,857</u>
CHANGE IN NET POSITION	5,333,928	406,551	5,740,479
NET POSITION AT BEGINNING OF YEAR	<u>20,042,400</u>	<u>23,235,546</u>	<u>43,277,946</u>
NET POSITION AT END OF YEAR	<u>\$ 25,376,328</u>	<u>\$ 23,642,097</u>	<u>\$ 49,018,425</u>

*See accompanying notes to the basic financial statements.*

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ -	\$ 6,790,381	\$ 6,790,381
Cash receipts for rental of sewer system	2,103,867	-	2,103,867
Cash paid to suppliers	(563,225)	(3,344,132)	(3,907,357)
Cash paid to employees	-	(1,964,633)	(1,964,633)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,540,642</u>	<u>1,481,616</u>	<u>3,022,258</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interest paid on bonds	(483,062)	(358,132)	(841,194)
Contributions (to) from Borough	3,000,000	(100,000)	2,900,000
Principal paid on bonds	(4,445,000)	(1,536,552)	(5,981,552)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,928,062)</u>	<u>(1,994,684)</u>	<u>(3,922,746)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	(3,647,915)	(1,331,536)	(4,979,451)
Contributions from townships	1,477,039	-	1,477,039
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,170,876)</u>	<u>(1,331,536)</u>	<u>(3,502,412)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	171,815	82,797	254,612
Sale of investments	2,158,798	1,713,407	3,872,205
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,330,613</u>	<u>1,796,204</u>	<u>4,126,817</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(227,683)</u>	<u>(48,400)</u>	<u>(276,083)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,892,287</u>	<u>2,980,207</u>	<u>6,872,494</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 3,664,604</u>	<u>\$ 2,931,807</u>	<u>\$ 6,596,411</u>
<b>CASH AND CASH EQUIVALENTS COMPRISED OF</b>			
Current	\$ 95,241	\$ 748,802	\$ 844,043
Restricted	<u>3,569,363</u>	<u>2,183,005</u>	<u>5,752,368</u>
	<u>\$ 3,664,604</u>	<u>\$ 2,931,807</u>	<u>\$ 6,596,411</u>

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 1,669,623	\$ 778,999	\$ 2,448,622
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,018,802	1,128,749	2,147,551
Pension expense	-	359,730	359,730
(Increase) decrease in			
Prepaid expenses	-	(158,817)	(158,817)
Receivables	(590,621)	(14,467)	(605,088)
Intergovernmental receivables	-	25,879	25,879
Other receivables	-	(4,126)	(4,126)
Increase (decrease) in			
Accounts payable and accrued expenses	(557,162)	(794,021)	(1,351,183)
Compensated absences	-	5,164	5,164
Unearned revenue	-	154,526	154,526
	<u>                    </u>	<u>                    </u>	<u>                    </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>1,540,642</u>	\$ <u>1,481,616</u>	\$ <u>3,022,258</u>

*See accompanying notes to the basic financial statements.*

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

The Pottstown Borough Authority (the "Authority") was created pursuant to an ordinance of the Pottstown Borough Council, incorporated under the Municipality Authorities Act of 1945, being the Act of May 2, 1945, P.L. 382, as amended by the Commonwealth of Pennsylvania.

The purpose of the Authority includes those activities of acquiring, holding, constructing, improving and maintaining, owning and leasing (in the capacity of lessor) sewers, sewer systems or parts thereof and sewage treatment works, including works for treating and disposing of industrial wastes. The Authority also issues bonds to finance the construction and operation of the sewer system and the construction, expansion and operation of the water system.

A summary of the Authority's significant accounting policies follows.

**Reporting Entity**

The Authority has adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards for the criteria used to evaluate organizations, activities and functions that should be included in the Authority's financial statements. The basic criteria are the exercise of oversight responsibility over such organizations, activities and functions.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. The Borough of Pottstown (the "Borough") appoints the Authority's governing board, approves rates charged to the Authority's customers and guarantees the Authority debts; therefore, the Borough includes the Authority in its financial statements as a component unit.

**Basis of Accounting**

All activities of the Authority are accounted for within two Proprietary (Enterprise) Funds. Proprietary Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities) are segregated into "net investment in capital assets," "restricted for debt service" and "unrestricted" components. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in total net position.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources and then unrestricted resources as they are needed for their intended purposes.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Capital Assets**

Capital assets, which include property, plant and equipment and infrastructure, are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

Property, plant and equipment and infrastructure of the Authority are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20-50
Buildings	50
Machinery and equipment	5-30

**Cash and Investments Held by Trustee, Restricted**

Restricted cash and investments consist partially of funds of \$6,475,241, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$5,752,368 represents assets established for specific purposes and uses under the Trust Indentures, including debt service, maintenance, capital expenditures and trust administrative expenses.

**Investments**

The Authority has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in certificates of deposit are reported at amortized cost.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenues and Receivables**

Charges for services are recognized when earned. All residential and commercial customers are billed quarterly based on usage. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year.

**Net Position**

Net position is categorized as net investment in capital assets, restricted and unrestricted as follows:

- ***Net Investment in Capital Assets*** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- ***Restricted*** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted*** - This category represents net position of the Authority not restricted for any project or other purpose.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. The first item is the deferred loss on refunding which is reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The second item is the deferred outflow of resources related to pensions which is reported in the statement of net position. The deferred outflow of resources related to pensions is the result of the net difference between projected and actual earnings on pension plan investments, difference between expected and actual experience, and changes in assumption.



**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any items that qualify for reporting in this category.

**NOTE B - DEPOSITS AND INVESTMENTS**

**Fair Value Measurement** - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has the following recurring fair value measurements as of December 31, 2018:

Investment Type	Amortized Cost	Fair Value	
		Level 1	Total
U.S. Government Treasury Strips	\$ -	\$ 6,475,241	\$ 6,475,241
U.S. Government Securities	-	765,125	765,125
	<u>\$ -</u>	<u>\$ 7,240,366</u>	<u>\$ 7,240,366</u>

The Authority did not have any investments that would be considered level 2 or level inputs as of December 31, 2018.

As of December 31, 2018, the Authority had the following investments and maturities:

Investment Type	Investment Maturities		
	Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Government Treasury Strips	\$ 2,216,285	\$ 4,258,956	\$ -
U.S. Government Securities	-	765,125	-
	<u>\$ 2,216,285</u>	<u>\$ 5,024,081</u>	<u>\$ -</u>

Investments in U.S. Government Treasury Strips of \$6,475,241 and U.S. Government Securities of \$765,125 are valued using quoted market prices (Level 1 inputs).

**Interest Rate Risk** - The Authority does not have a formal investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

**Credit Risk** - The Authority does not have a formal investment policy that would limit its investment choices to certain credit ratings.

**Custodial Credit Risk** - The Authority does not have a formal policy to limit its exposure to custodial credit risk. For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2018, \$6,596,411 of the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not held in the Authority's name	\$ <u>6,596,411</u>
--	---------------------

**Concentration of Credit Risk** - The Authority places no limit on the amount the Authority may invest in any one issuer.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable consisted of utilities, interest and other revenues. Accounts receivable and the related allowance for doubtful accounts as of December 31, 2018, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Sewer Fund			
Other receivables	\$ 590,621	\$ -	\$ 590,621
Water Fund			
Trade receivables	\$ 1,208,774	\$ 182,639	\$ 1,026,135
Other receivables	36,772	-	36,772

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**NOTE D - CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
<b>SEWER FUND</b>				
Capital assets not being depreciated				
Land	\$ 36,650	\$ -	\$ -	\$ 36,650
Construction in progress	3,527,468	3,647,915	(4,013,499)	3,161,884
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	3,564,118	3,647,915	(4,013,499)	3,198,534
Capital assets being depreciated				
Buildings and building improvements	34,334,163	-	-	34,334,163
Machinery and equipment	1,480,096	-	-	1,480,096
Infrastructure	8,729,972	4,013,499	-	12,743,471
TOTAL CAPITAL ASSETS BEING DEPRECIATED	44,544,231	4,013,499	-	48,557,730
Accumulated depreciation				
Buildings and building improvements	(17,600,457)	(830,771)	-	(18,431,228)
Machinery and equipment	(840,836)	(69,172)	-	(910,008)
Infrastructure	(2,493,573)	(236,262)	-	(2,729,835)
TOTAL ACCUMULATED DEPRECIATION	(20,934,866)	(1,136,205)	-	(22,071,071)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	23,609,365	2,877,294	-	26,486,659
SEWER FUND CAPITAL ASSETS, net	<u>\$ 27,173,483</u>	<u>\$ 6,525,209</u>	<u>\$ (4,013,499)</u>	<u>\$ 29,685,193</u>
<b>WATER FUND</b>				
Capital assets not being depreciated				
Land	\$ 330,179	\$ -	\$ -	\$ 330,179
Construction in progress	3,634,809	1,331,536	(3,708,985)	1,257,360
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	3,964,988	1,331,536	(3,708,985)	1,587,539
Capital assets being depreciated				
Machinery and equipment	1,213,621	-	-	1,213,621
Infrastructure	37,292,285	3,708,985	-	41,001,270
TOTAL CAPITAL ASSETS BEING DEPRECIATED	38,505,906	3,708,985	-	42,214,891
Accumulated depreciation				
Machinery and equipment	(899,602)	(61,927)	-	(961,529)
Infrastructure	(12,975,363)	(1,086,019)	-	(14,061,382)
TOTAL ACCUMULATED DEPRECIATION	(13,874,965)	(1,147,946)	-	(15,022,911)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	24,630,941	2,561,039	-	27,191,980
WATER FUND CAPITAL ASSETS, net	<u>\$ 28,595,929</u>	<u>\$ 3,892,575</u>	<u>\$ (3,708,985)</u>	<u>\$ 28,779,519</u>

Depreciation expense was \$1,136,205 in the Sewer Fund and \$1,147,946 in the Water Fund for the year ended December 31, 2018.

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**NOTE E - LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities is as follows:

	Balance Outstanding January 1, 2018	Additions	Deletions	Balance Outstanding December 31, 2018	Due Within One Year
<b>SEWER FUND</b>					
BONDS AND NOTES PAYABLE					
Bond premium	914,603	\$ -	\$ (230,417)	\$ 684,186	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	7,738,573	518,228 (1)	(2,265,000)	5,991,801	2,140,980
Guaranteed Sewer Revenue Bonds					
Series of 2012	2,850,000	-	(320,000)	2,530,000	330,000
Series of 2016	7,985,000	-	(1,860,000)	6,125,000	1,945,000
TOTAL BONDS AND NOTES PAYABLE	<u>\$ 19,488,176</u>	<u>\$ 518,228</u>	<u>\$ (4,675,417)</u>	<u>\$ 15,330,987</u>	<u>\$ 4,415,980</u>
<b>WATER FUND</b>					
BONDS AND NOTES PAYABLE					
Bond premium	\$ 183,319	\$ -	\$ (91,659)	\$ 91,660	\$ -
Bond discount	(6,022)	-	1,106	(4,916)	-
Bonds payable					
Guaranteed Water Revenue Bonds					
Series of 2007	2,552,636	-	(206,552)	2,346,084	216,100
Series of 2012	5,070,000	-	(75,000)	4,995,000	75,000
Series A of 2016	2,575,000	-	(1,255,000)	1,320,000	1,320,000
TOTAL BONDS AND NOTES PAYABLE	<u>10,374,933</u>	<u>-</u>	<u>(1,627,105)</u>	<u>8,747,828</u>	<u>1,611,100</u>
<b>OTHER LIABILITIES</b>					
Net pension liability	1,499,546	766,991	-	2,266,537	-
Compensated absences	45,108	5,164	-	50,272	-
TOTAL OTHER LIABILITIES	<u>1,544,654</u>	<u>772,155</u>	<u>-</u>	<u>2,316,809</u>	<u>-</u>
TOTAL WATER FUND LONG-TERM LIABILITIES	<u>\$ 11,919,587</u>	<u>\$ 772,155</u>	<u>\$ (1,627,105)</u>	<u>\$ 11,064,637</u>	<u>\$ 1,611,100</u>

(1) Amount represents increase in accreted value of bonds.

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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Guaranteed Sewer Bonds, Series of 1991**

On September 15, 1991, the Authority issued approximately \$15.4 million in Guaranteed Sewer Bonds for the purpose of refunding the Authority's debt service on the Guaranteed Sewer Bonds, Series of 1989, maturing from November 1, 1991 to and including May 1, 1999. The bonds issued are in the form of capital appreciation bonds, which means bonds that bear no periodic, current interest but which accrete in value from the date thereof to the date of maturity thereof at the compounded yield to maturity on the original principal amount, in lieu of such periodic, current interest. The original maturity value of the Series of 1991 Bonds is \$51,085,000. The remaining value of the Series of 1991 Bonds is \$6,755,000 as of December 31, 2018. The funds have been deposited in an irrevocable trust to provide stated debt service payments on the 1989 Guaranteed Sewer Bonds.

The Pottstown Borough Authority Sewer Fund Bond, Series of 1991, is secured by a Trust Indenture. The bonds are payable out of escrow funds and the revenues of the Authority, principally from a Fourth Supplemental Lease dated December 15, 1996, originally dated May 1, 1989, between the Authority (lessor) and the Borough (lessee). The Borough agrees to pay semiannual rents of varying amounts coinciding with the life of the Authority bond issue and sufficient to pay the Authority's debt service requirements.

The Authority entered into an escrow agreement on December 15, 1996, whereby funds were deposited in an escrow account to fund a portion of maturity values for the 1991 Bonds. At December 31, 2018, the value of the escrow account included in cash and investments held by the trustee was \$6,475,241. The portion of the 1991 accreted value bonds for which funds are escrowed is presented below:

<u>Total Bonds Outstanding</u>	<u>Portion of Bonds Outstanding for Which Funds are Escrowed</u>	<u>Maturing May 1, and November 1,</u>	<u>Interest Rate</u>
\$ 2,140,980	\$ 2,140,980	2019	7.05%
1,991,083	1,991,083	2020	7.05%
<u>1,859,738</u>	<u>1,859,738</u>	2021	7.05%
<u>\$ 5,991,801</u>	<u>\$ 5,991,801</u>		

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**NOTE E - LONG-TERM LIABILITIES (Continued)**

Bonds outstanding at gross maturity value are as follows:

TOTAL GROSS MATURITY VALUE OUTSTANDING AT DECEMBER 31, 2018	\$ 6,775,000
Discount	<u>(783,199)</u>
TOTAL ACCRETED VALUE AT DECEMBER 31, 2018	<u>\$ 5,991,801</u>

**Sewer Revenue Bonds of 2012**

In 2012, the Authority issued Sewer Revenue Bonds of 2012, dated April 15, 2012, in the amount of \$4,570,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Seventh Supplemental Indenture dated April 15, 2012. The bonds are payable out of the receipts and revenues of the sewer system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 2.00% to 3.25% over the life of the bonds. The bonds will fully mature in November 2025. The bonds were issued to currently refund \$4,390,000 of the outstanding Sewer Revenue Bonds, Series of 2005, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$160,621. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$271,959 and a reduction of \$290,969 in future debt service payments.

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**NOTE E - LONG-TERM LIABILITIES (Continued)**

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 330,000	\$ 75,813	2019	2.500%
340,000	67,563	2020	2.750%
350,000	58,213	2021	3.000%
360,000	47,713	2022	3.000%
370,000	36,913	2023	3.125%
<u>780,000</u>	<u>38,188</u>	2024 to 2025	3.250%
<u>\$ 2,530,000</u>	<u>\$ 324,403</u>		

**Guaranteed Revenue Sewer Bonds, Series of 2016**

In 2016, the Authority issued \$11,165,000 in Guaranteed Revenue Sewer Bonds, Series of 2016, dated August 29, 2016. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Eighth Supplemental Indenture dated August 29, 2016. The bonds are payable out of the receipts and revenues of the sewer system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 0.65% to 5.00% over the life of the bonds. The bonds will fully mature in November 2021. The bonds were issued to currently refund \$11,970,000 of the outstanding Sewer Revenue Bonds, Series of 2006, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$304,692. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$818,797 and a reduction of \$820,652 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 1,945,000	\$ 306,250	2019	5.00%
2,035,000	209,000	2020	5.00%
<u>2,145,000</u>	<u>107,250</u>	2021	5.00%
<u>\$ 6,125,000</u>	<u>\$ 622,500</u>		

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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds, Series of 2007**

In 2007, the Authority issued Water Revenue Bonds, Series of 2007, dated December 28, 2007, in the amount of \$4,177,250. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Fifth Supplemental Indenture dated December 28, 2007. The bonds are payable out of the receipts and revenues of the water system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate of 4.57% over the life of the bonds. The bonds will fully mature in December 2027. The bonds were issued to undertake certain capital projects related to the Authority's water system, fund a Debt Service Reserve Fund, provide for capitalized interest on the bonds and pay the costs in connection with the issuance of the bonds.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 216,100	\$ 104,775	2019	4.57%
226,088	94,786	2020	4.57%
236,538	84,336	2021	4.57%
247,472	73,403	2022	4.57%
258,911	61,964	2023	4.57%
<u>1,160,975</u>	<u>122,522</u>	2024 to 2027	4.57%
<u>\$ 2,346,084</u>	<u>\$ 541,786</u>		



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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds of 2012**

In 2012, the Authority issued Water Revenue Bonds of 2012, dated May 15, 2012, in the amount of \$5,395,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Seventh Supplemental Indenture dated May 15, 2012. The bonds are payable out of the receipts and revenues of the water system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 2.00% to 2.55% over the life of the bonds. The bonds will fully mature in December 2023. The bonds were issued to advance refund a portion of the outstanding Water Revenue Bonds of 2009, Series AA, of \$4,765,000, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$563,885. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$164,066 and a reduction of \$165,368 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 75,000	\$ 113,560	2019	2.00%
1,470,000	112,060	2020	2.05%
1,505,000	81,925	2021	2.25%
1,535,000	48,063	2022	2.45%
<u>410,000</u>	<u>10,455</u>	2023	2.55%
<u>\$ 4,995,000</u>	<u>\$ 366,063</u>		

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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds of 2016, Series A**

In 2016, the Authority issued Water Revenue Bonds of 2016, dated August 29, 2016, in the amount of \$4,855,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Eighth Supplemental Indenture dated August 29, 2016. The bonds are payable out of the receipts and revenues of the water system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 0.65% to 5.00% over the life of the bonds. The bonds will fully mature in December 2019. The bonds were issued to currently refund the remainder of the outstanding Water Revenue Bonds of 2009, Series AA, of \$5,070,000, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$31,118. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$228,538 and a reduction of \$229,320 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 1,320,000	\$ 66,000	2019	5.00%

**Bond Covenants**

The Authority complied with the bond covenants pertaining to the rate covenant and the debt service reserve funds withdrawals for the Authority's Guaranteed Water Revenue Bonds and Sewer Revenue Bonds.

**NOTE F - CONDUIT DEBT**

In 2002, the Authority issued Educational Facilities Variable Rate Demand Revenue Bonds totaling \$7,000,000 for the purpose of assisting with the financing needed by a privately owned school for the construction and equipping of a multi-purpose field house and a maintenance building within the Borough. Final maturity of the bonds is February 1, 2030. The bonds were secured by a bank irrevocable direct-pay letter of credit (existing credit facility), which was scheduled to expire on June 3, 2013.

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**NOTE F - CONDUIT DEBT (Continued)**

On May 1, 2013, the Authority and the trustee entered into a First Supplemental Trust Indenture. Under the Indenture, the bonds are subject to mandatory tender for purchase. The bonds were purchased by M&T Trust Company (M&T) with proceeds of a drawing under the existing credit facility. The bonds shall be held by the Trustee on behalf of M&T as bank bonds and the existing credit facility was terminated.

In November 2008, the Authority authorized the issuance of a Revenue Note totaling \$4,000,000 for the purpose of assisting a Pennsylvania nonprofit corporation in the acquisition, improvement, construction and equipping of a rehabilitation facility within the Borough. The note was paid in full April 27, 2018. The note is secured by various assets of the borrower.

The Authority has no liability for the bonds or note in the event of default by the borrowers. Accordingly, the bonds and note are not reported as liabilities in the Authority's financial statements.

**NOTE G - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2018. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE H - SEWER SYSTEM LEASE AGREEMENT**

The sewer system and related assets are owned by the Authority and leased to the Borough. The Authority leases the operation and maintenance of the sewer system to the Borough under the Agreements of Lease dated May 1, 1989, the First Supplemental Agreement of Lease dated September 15, 1991, the Second Supplemental Agreement of Lease dated January 15, 1994, the Third Supplemental Agreement of Lease dated August 1, 1995, the Fourth Supplemental Agreement of Lease dated December 15, 1996, the Fifth Supplemental Agreement of Lease dated February 1, 2005, the Sixth Supplemental Agreement dated November 15, 2006, the Seventh Supplemental Agreement dated April 15, 2012, and the Eighth Supplemental Agreement dated August 29, 2016.

The lease terms stipulate that the Borough is to pay fixed rentals to the Authority, net of interest collected on funds held by the trustee, until sufficient funds become available in the Trust Indenture accounts to meet the full debt service or redemption price of the outstanding revenue bonds secured by the Trust Indentures. The Authority is responsible for all care, maintenance and improvements to the leased property. These rentals are paid in two semiannual installments due on May 1 and November 1 of each lease year in varying amounts through November 1, 2025. Upon expiration of the lease, the leased property reverts to the Authority.

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**NOTE H - SEWER SYSTEM LEASE AGREEMENT (Continued)**

Future minimum payments due to the Authority under the sewer system lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 2,657,063
2020	2,651,563
2021	2,660,463
2022	407,713
2023	406,916
2024 to 2025	<u>818,188</u>
	<u>\$ 9,601,906</u>

Rents received from the Borough in 2018 were \$2,661,896.

**NOTE I - MANAGEMENT AGREEMENT**

Effective November 15, 1990, and as amended with the First Supplemental Management Agreement dated July 15, 1998, and the Second Supplemental Management Agreement dated August 19, 2007, the Authority entered into a management agreement with the Borough to manage the day-to-day operations of the water system to include repair, maintenance and administration. The management agreement expires in 2025. The management fee will be the greater of \$100,000 or a sum equal to 6.1% of the aggregate of the budgeted annual costs of operating and maintaining the water system and 115% of the average annual debt service requirements on water revenue bonds.

Management fees for the year ended December 31, 2018, were \$396,958.

**NOTE J - SALE OF WATER DISTRIBUTION FACILITY**

In April 2002, the Authority sold a portion of its water distribution facility in Chester County to a township. The Authority also entered into a Bulk Water Purchase Agreement with the township for an initial term of five years, which automatically renewed for an additional five years as neither party gave the other party prior written notice of its intention not to renew. Under this agreement, the Authority received \$2.34 per thousand gallons of water delivered for the first three years of the term. After three years, the rate increased to \$3.56 per thousand gallons of water delivered each year of the agreement. Effective January 1, 2012, the rate increased to \$3.60 per thousand gallons.

The amount recognized as revenue under this agreement in 2018 was \$381,273.

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**NOTE K - CONTRIBUTION TO BOROUGH GARAGE PROJECT**

In January 2015, the Authority committed to contribute \$200,000 annually to the Borough of Pottstown for a period of ten years for construction of a new public works building.

**NOTE L - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND)**

**Summary of Significant Accounting Policies**

**Method Used to Value Investments** - Plan investments are carried at fair value as reported by the investment managers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

**Plan Description**

**Plan Administration** - The Borough of Pottstown administers the Borough and Authority Pension Plan - a cost sharing defined benefit pension plan that provides pensions for all full-time non-uniformed employees of the Borough of Pottstown.

Management of the Borough and Authority Pension Plan is vested in the Pension/Investment Board, which is responsible for management of plan assets. The Pension/Investment Board has delegated the authority to manage certain plan assets to Beirne Wealth Consulting. As of May 1, 2018, the Pension/Investment Board moved the management of plan assets from Beirne Wealth Consulting to RBC Wealth Management.

**Benefits Provided** - The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan. All benefits vest after completion of ten years of credited service. Employees who retire as of the first day of the month on or after the earlier of attainment of age 60 or attainment of age 55 and completion of 25 years of service are entitled to an annual retirement benefit, payable monthly for life. Monthly pension is equal to 1.667% of the average monthly compensation multiplied by the number of years of benefit service completed by the member at retirement. The maximum benefit is 50% of average monthly compensation. The average monthly compensation is based upon the final 36 months of employment or final year of employment, whichever is greater.

**Contributions** - Pennsylvania Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. In accordance with the plan's governing ordinance, members are required to contribute at least 5.75% of compensation to the plan. 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.

The Authority's portion of the MMO obligation for the plan was \$105,475 for the year ended December 31, 2018.

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**NOTE L - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

**Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2018, the Authority reported a liability of \$2,266,537 for its proportionate share of the net pension liability. The net position liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The Authority's proportion of the net pension liability was based on the Authority's share of the minimum municipal obligation relative to the total minimum municipal obligation. At December 31, 2018, the Authority's proportion was 32.26%.

For the year ended December 31, 2018, the Authority recognized pension expense of \$465,205, including the MMO obligation of \$105,475. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 62,070	\$ -
Changes in assumptions	176,988	-
Net difference between projected and actual earnings on pension plan investments	<u>754,183</u>	<u>-</u>
TOTALS	<u>\$ 993,241</u>	<u>\$ -</u>

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**NOTE L - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

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

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 376,354
2020	211,958
2021	206,213
2022	<u>198,716</u>
	<u>\$ 993,241</u>

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Annual salary increases (includes inflation)	4.00%
Investment rate of return	6.50%
Postretirement cost of living increase	None

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

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**NOTE L - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are 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 the 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>
Domestic equity	50.00%	5.50% - 7.50%
Fixed income	50.00%	1.00% - 3.00%
	<u>100.00%</u>	

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that is expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

**Changes in the Authority's Portion of the Net Pension Liability Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the proportionate share of the net pension liability of the Authority, calculated using the discount rate of (6.5%), as well as what the Authority's net pension would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

	<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
Authority's proportionate share of the net pension liability	\$ <u>2,958,369</u>	\$ <u>2,266,537</u>	\$ <u>1,680,100</u>

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued Borough of Pottstown Annual Financial Report.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
 SCHEDULES OF THE AUTHORITY'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 LAST THREE FISCAL YEARS

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's proportion of the net pension liability	<u>32.26%</u>	<u>32.26%</u>	<u>32.26%</u>
Authority's proportionate share of the net pension liability	\$ <u>2,266,537</u>	\$ <u>1,499,546</u>	\$ <u>1,054,503</u>
Authority's covered-employee payroll	\$ <u>1,144,012</u>	\$ <u>1,184,692</u>	\$ <u>1,487,945</u>
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>198.12%</u>	<u>126.58%</u>	<u>70.87%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>68.17%</u>	<u>78.28%</u>	<u>83.18%</u>

**NOTES TO THE SCHEDULE**

This schedule is intended to present information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**SCHEDULES OF THE AUTHORITY'S CONTRIBUTIONS**  
**LAST THREE FISCAL YEARS**

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's proportion of the contributions	\$ 105,475	\$ 110,676	\$ 95,227
Contributions in relation to the Authority's determined contribution	<u>105,475</u>	<u>110,676</u>	<u>95,227</u>
Contribution (excess) deficiency	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered-employee payroll	\$ <u>1,144,012</u>	\$ <u>1,184,692</u>	\$ <u>1,487,945</u>
Contributions as a percentage of covered- employee payroll	<u>9.22%</u>	<u>9.34%</u>	<u>6.40%</u>

**NOTES TO THE SCHEDULE**

This schedule is intended to present information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**APPENDIX E**  
**FINANCIAL REPORT OF THE BOROUGH YEAR ENDED DECEMBER 31, 2018**

**BOROUGH OF POTTSTOWN**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2018*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

**BOROUGH OF POTTSTOWN**  
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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Borough of Pottstown as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough of Pottstown'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 accounting principles generally accepted in the United States of America; this includes 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' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Borough of Pottstown as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Emphasis of Matter***

For the year ended December 31, 2018, the Borough of Pottstown adopted new accounting guidance, implementing Governmental Accounting Standards Board Statements No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 20, budgetary comparison information on pages 85 through 93, pension plan information on pages 94 through 100 and postemployment benefits other than pension plans information on pages 101 through 103 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Pottstown's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019, on our consideration of the Borough of Pottstown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Pottstown's internal control over financial reporting and compliance.

*Maille LLP*

Oaks, Pennsylvania  
June 4, 2019

# **BOROUGH OF POTTSTOWN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **YEAR ENDED DECEMBER 31, 2018**

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#### **INTRODUCTION**

This section of the annual financial report for the Borough of Pottstown (the "Borough") presents a narrative overview and analysis of the Borough's financial performance for the fiscal year ended December 31, 2018. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the Borough's financial condition at December 31, 2018.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this report consists of four parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Other supplementary information

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the Borough government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided in the Borough's budget to actual figures for the major Governmental Funds. In addition to these required statements, another supplementary section is included with combining statements that provide particulars about nonmajor funds.

The basic financial statements present two different views of the Borough.

- *Government-Wide Financial Statements*, the first two statements, provide information about the Borough's overall financial status as well as the financial status of the Borough's component unit.
- *Fund Financial Statements*, the remaining statements, focus on individual parts of Borough government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
  - *Governmental Funds statements* show how general government services such as public safety were financed in the short term, as well as what remains for future spending.
  - *Proprietary Funds statements* offer short-term and long-term financial information about the activities the Borough operates like a business, such as the Pottstown Borough Sewer Fund.

## **BOROUGH OF POTTSTOWN**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2018**

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- o *Fiduciary Funds statements* reflect activities involving resources that are held by the Borough as a trustee or agent for the benefit of others. An example of this is the fund created to account for Developer's Escrow Accounts. Fiduciary Funds are not reflected in the government-wide statements because the resources cannot be used to support the Borough's programs.

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

Government-wide financial statements report information about the Borough as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all of the Borough's assets and liabilities, except Fiduciary Funds, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the Borough's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to net position are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the Borough's financial position. Over time, increases or decreases in the Borough's net position are one indicator of whether the Borough's financial position is improving or deteriorating. However, other nonfinancial factors such as changes in the Borough's real property tax base and general economic conditions must be considered to assess the overall position of the Borough.

The primary government and its component unit are included in the government-wide financial statements. Component units reflect the activities of legally separate government entities over which the Borough can exercise influence and/or be obligated to provide financial support. The Borough has one discretely presented component unit, the Pottstown Borough Authority. Complete and detailed financial statements for the component unit can be obtained from its administrative office.

There are two categories of activities for the primary government.

- *Governmental activities* include the Borough's basic services such as general government, public safety, public works, culture and recreation and conservation and development. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* such as the Borough's Sewer Fund charge a fee to customers to help cover the costs of services.

## **BOROUGH OF POTTSTOWN**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2018**

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Net position of the governmental activities differs from the Governmental Funds balances because Governmental Fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate the net position balance as follows:
  - The portion of net position's net investment in capital assets.
  - Restricted net position is the portion of net position with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation.
  - Unrestricted net position is the portion of net position that does not meet any of the above restrictions.

#### **Fund Financial Statements**

Fund financial statements provide more detailed information on the Borough's most significant funds, not the Borough as a whole. Funds are accounting devices, i.e., a group of related accounts, the Borough uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments.



## **BOROUGH OF POTTSTOWN**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2018**

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The Borough has three kinds of funds:

- *Governmental Funds* include most of the Borough's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Borough's programs.

The relationship between governmental activities (reported in the statement of net position and the statement of activities) and Governmental Funds is described in a reconciliation that is included in the financial statements.

The Borough adopts an annual budget for the General, Special Revenue and Capital Project Funds, as required by the state law.

- *Proprietary Funds* report business-type programs and activities that charge fees designed to recover the cost of providing services. They report using full accrual accounting.
- *Fiduciary Funds* are funds for which the Borough is the trustee or fiduciary. These include certain Agency Funds, or clearing accounts for assets held by the Borough in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong. The Borough is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These funds are excluded from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

### **Net Position**

Total assets were \$46.3 million for 2018, which represents a slight decrease of \$164,801 or .35% from 2017. Governmental capital assets, net, increased by \$1.5 million, and other assets decreased by \$1.7 million. Capital additions for 2018 totaled \$2.3 million and included expenditures to purchase two police vehicles (of which funds were contributed by an outside third party), the annual County radio payment, and expenditures for major grant-supported projects. This increase was offset by the \$1.6 million increase in accumulated depreciation resulting from 2018 depreciation expense. Other assets increased by \$1.2 million or 12.3% in 2018. Cash and cash equivalents increased by \$.1 million; and accounts receivable due from other governments decreased by \$.3 million due to the lower grants receivable.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2018**

Total liabilities were \$45.5 million and increased by \$12 million or 36% in 2018. Short-term liabilities increased by \$12 million due to a re-classification of account types from 2017 to 2018. Long-term liabilities decreased by \$.4 million, as a result of lower debt payments.

GASB 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The Borough believes it has included its entire infrastructure in the 2018 financial statements.

***Condensed Statements of Net Position***

	Governmental Activities		Business-Type Activities		Totals		Variance
	2018	2017	2018	2017	2018	2017	
<b>ASSETS</b>							
Capital assets	\$ 27,704,060	\$ 27,362,717	\$ 668,110	\$ 710,600	\$ 28,372,170	\$ 28,073,317	\$ 298,853
Other assets	10,909,175	9,707,914	7,031,425	8,696,340	17,940,600	18,404,254	(463,654)
<b>TOTAL ASSETS</b>	<b>38,613,235</b>	<b>37,070,631</b>	<b>7,699,535</b>	<b>9,406,940</b>	<b>46,312,770</b>	<b>46,477,571</b>	<b>(164,801)</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Pension activity	5,716,472	3,746,796	669,732	455,039	6,386,204	4,201,835	2,184,369
Opeb activity	148,915	-	1,096	-	150,011	-	150,011
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>5,865,387</b>	<b>3,746,796</b>	<b>670,828</b>	<b>455,039</b>	<b>6,536,215</b>	<b>4,201,835</b>	<b>2,334,380</b>
<b>LIABILITIES</b>							
Other liabilities	1,397,322	1,377,251	860,861	818,392	2,258,183	2,195,643	62,540
Net pension liability	11,698,115	7,882,296	1,528,301	1,011,127	13,226,416	8,893,423	4,332,993
Net opeb liability	26,667,330	18,615,617	196,350	-	26,863,680	18,615,617	8,248,063
Long-term liabilities	3,154,458	3,581,469	62,041	77,486	3,216,499	3,658,955	(442,456)
<b>TOTAL LIABILITIES</b>	<b>42,917,225</b>	<b>31,456,633</b>	<b>2,647,553</b>	<b>1,907,005</b>	<b>45,564,778</b>	<b>33,363,638</b>	<b>12,201,140</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Pension activity	972,762	1,389,399	-	59,920	972,762	1,449,319	(476,557)
Opeb activity	3,389,488	-	24,956	-	3,414,444	-	3,414,444
<b>TOTAL DEFERRED INFLOWS</b>	<b>4,362,250</b>	<b>1,389,399</b>	<b>24,956</b>	<b>59,920</b>	<b>4,387,206</b>	<b>1,449,319</b>	<b>2,937,887</b>
<b>NET POSITION</b>							
Net investment in capital assets	24,517,124	23,731,350	668,110	710,600	25,185,234	24,441,950	743,284
Restricted	1,989,607	2,512,333	-	-	1,989,607	2,512,333	(522,726)
Unrestricted	(29,307,584)	(18,272,288)	5,029,744	7,184,454	(24,277,840)	(11,087,834)	(13,190,006)
<b>TOTAL NET POSITION</b>	<b>\$ (2,800,853)</b>	<b>\$ 7,971,395</b>	<b>\$ 5,697,854</b>	<b>\$ 7,895,054</b>	<b>\$ 2,897,001</b>	<b>\$ 15,866,449</b>	<b>\$ (12,969,448)</b>

***Changes in Net Position***

The statement of activities represents changes in net position for the year ended December 31, 2018. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole. Reductions in Net Position can reflect additional annual depreciation and/or the elimination of assets during the particular year. Increases in Net Position can reflect the completion of previous works-in-progress and/or the purchase of additional assets. The statement of activities can be found in the accompanying Financial Statements.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2018**

**Condensed Statements of Activities**

	Governmental Activities		Business-Type Activities		Totals		
	2018	2017	2018	2017	2018	2017	Variance
<b>REVENUES</b>							
Program revenues							
Charges for services	\$ 5,504,906	\$ 4,973,403	\$ 9,882,263	\$ 9,506,710	\$ 15,387,169	\$ 14,480,113	\$ 907,056
Operating grants and contributions	4,040,393	4,186,024	-	-	4,040,393	4,186,024	(145,631)
Capital grants and contributions	919,670	819,798	-	-	919,670	819,798	99,872
General revenues							
Real estate taxes	8,689,994	8,241,723	-	-	8,689,994	8,241,723	448,271
Earned income taxes	2,368,144	2,307,475	-	-	2,368,144	2,307,475	60,669
Other taxes	838,766	1,054,969	-	-	838,766	1,054,969	(216,203)
Unrestricted licenses and fees	541,607	529,584	-	-	541,607	529,584	12,023
Gain on sale of capital assets	380	29,816	-	-	380	29,816	(29,436)
Unrestricted investment earnings	117,993	48,965	75,503	53,975	193,496	102,940	90,556
Royalties and rental income	35,081	29,603	-	-	35,081	29,603	5,478
Realized and unrealized gain (loss) on investments	2,768	1,523	9,041	11,649	11,809	13,172	(1,363)
Reimbursement from Pottstown Borough Authority	200,000	223,173	-	-	200,000	223,173	(23,173)
Miscellaneous	121,619	121,508	76,677	137,403	198,296	258,911	(60,615)
<b>TOTAL REVENUES</b>	<b>23,381,321</b>	<b>22,567,564</b>	<b>10,043,484</b>	<b>9,709,737</b>	<b>33,424,805</b>	<b>32,277,301</b>	<b>1,147,504</b>
<b>EXPENSES</b>							
General government	3,894,081	3,896,255	-	-	3,894,081	3,896,255	(2,174)
Public safety	11,663,784	10,903,719	-	-	11,663,784	10,903,719	760,065
Public works	7,122,783	6,763,031	-	-	7,122,783	6,763,031	359,752
Culture and recreation	1,200,723	1,363,117	-	-	1,200,723	1,363,117	(162,394)
Conservation and development	173,000	169,018	-	-	173,000	169,018	3,982
Debt service	80,510	162,612	-	-	80,510	162,612	(82,102)
Contribution to Pottstown Borough Authority	-	-	3,100,000	1,300,000	3,100,000	1,300,000	1,800,000
Sewer services	-	-	8,930,299	8,515,975	8,930,299	8,515,975	414,324
<b>TOTAL EXPENSES</b>	<b>24,134,881</b>	<b>23,257,752</b>	<b>12,030,299</b>	<b>9,815,975</b>	<b>36,165,180</b>	<b>33,073,727</b>	<b>3,091,453</b>
<b>TRANSFERS</b>	<b>-</b>	<b>(23,173)</b>	<b>-</b>	<b>23,173</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>(753,560)</b>	<b>(667,015)</b>	<b>(1,986,815)</b>	<b>(129,411)</b>	<b>(2,740,375)</b>	<b>(796,426)</b>	<b>(1,943,949)</b>
<b>NET POSITION AT BEGINNING OF YEAR, restated</b>	<b>(2,047,293)</b>	<b>8,638,410</b>	<b>7,684,669</b>	<b>8,024,465</b>	<b>5,637,376</b>	<b>16,662,875</b>	<b>(11,025,499)</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ (2,800,853)</b>	<b>\$ 7,971,395</b>	<b>\$ 5,697,854</b>	<b>\$ 7,895,054</b>	<b>\$ 2,897,001</b>	<b>\$ 15,866,449</b>	<b>\$ (12,969,448)</b>

Total net position for 2018 decreased by \$13 million. Approximately \$11 million of this variance is due to the new GASB #75, which requires the reporting of OPEB liabilities on financial statements. Increases in expenses for Public Safety, Public Works, Borough Authority, and Sewer Service for the year 2018 totaled \$3.3 million. Total revenues for 2018 were \$33.4 million and increased by \$1.1 million or 3.5% from 2017. Of that \$1.1 million increase, \$.4 million is attributed to increased Real Estate Taxes. Capital grants and contributions increased \$.1 million. Charges for Services increased \$.9 million. Business-type activity revenues were slightly higher due to higher bulk sewer revenues received from outside sludge haulers. Conversely Other Taxes decreased \$.2 million.

## **BOROUGH OF POTTSTOWN**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2018**

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Total expenses were \$36.1 million and increased by \$3 million, or 9.4%, in 2018. Sewer services increased by \$0.4 million, and Public Safety and Public Works increased a total of \$1.1 million. The sewer increase in expenses was a result of extensive maintenance to sewer lines, as well as repairs to the sludge dryer. The increase in Public Safety and Public Works was due to the recording of pension liabilities per the new GASB standard of reporting in 2018.

#### **Net Program Expenses**

Net program expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2018, general real estate tax revenue was \$8.7 million, which increased \$.4 million, from 2017, as a result of the increase in the tax millage. The net program expenses for the year ended December 31, 2018, can be found in the accompanying statement of activities.

The real estate tax is based on the assessed value of real property. Changes in the assessed valuation can affect tax revenues. The Boroughs assessed valuation of real property was \$772 million for 2018 and was \$30.0 million lower than 2017.

In December 2017, Borough Council again approved an increase of 1.24 mills, going from 10.340 to 11.58 for all funds for 2018. The Borough's tax rate is well below the Commonwealth-set cap for operating costs. Because of a few years of zero percent tax increases, the 2018 change in millage seemed out of proportion. Maintaining consistent millage rates with minimal annual increases would eliminate a large increase all at once.

Under the terms of a Management Agreement with the Pottstown Borough Authority, the Borough, on behalf of the Authority, is responsible for all day-to-day operations of the water system, including, but not limited to, maintenance and repair and administration (to include the billing and collection of the system receipts). The Authority is responsible for fixing the water rates and charges in an amount sufficient to fund the annual costs of operations, maintenance and administration.

The current Management Agreement's initial term expired August 1, 2010, and has been automatically renewed from year to year thereafter. Either party can terminate the agreement by serving notice by February 1 of the year that they wish to terminate the agreement, in which case the agreement terminates as of August 1st of that year.

The sewer plant is operated by the Borough under an Agreement of Lease dated as of May 1, 1989, as supplemented by subsequent trust indentures. In July 2011, the Borough and the Authority entered into a Sewer System Agreement to provide for the Authority to take a more active role in overseeing the management and operation of the sewer system. The agreement, which expires in 2025, is not intended to relieve the Borough of its duties, powers, rights, or obligation under the Agreement of Lease.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2018**

**Net Cost of Governmental and Business-Type Activities**

Program	Total Cost of Services	Net Cost of Services
General government	\$ 3,894,081	\$ (3,100,485)
Public safety	11,663,784	(10,050,765)
Public works	7,122,783	(388,999)
Culture and recreation	1,200,723	(834,664)
Conservation and development	173,000	787,857
Sewer services	8,930,299	951,964
	<u>\$ 32,984,670</u>	<u>\$ (12,635,092)</u>

Total Net Cost of Services is \$.9 million higher when compared to the prior year primarily due to higher other post-employment benefit expense and pension expenses related to the implementation of GASB reporting requirements.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Borough's capital assets at December 31, 2018, net of accumulated depreciation, were \$28 million. Capital assets consist primarily of land, buildings, equipment and infrastructure. The table below is a summary of capital assets at December 31, 2018, and compares 2017 with 2018.

	Governmental Activities		Business-Type Activities		Totals		Variance
	2018	2017	2018	2017	2018	2017	
<b>CAPITAL ASSETS</b>							
Land	\$ 2,648,352	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352	\$ 2,648,352	\$ -
Construction in progress	1,804,881	1,293,828	-	-	1,804,881	1,293,828	511,053
Land improvements	10,522,901	10,411,515	-	-	10,522,901	10,411,515	111,386
Buildings and improvements	13,682,644	13,682,644	-	-	13,682,644	13,682,644	-
Machinery and equipment	11,486,705	11,396,446	496,616	496,616	11,983,321	11,893,062	90,259
Infrastructure	7,106,240	5,900,809	5,752,740	5,752,740	12,858,980	11,653,549	1,205,431
Accumulated depreciation	(19,547,663)	(17,970,877)	(5,581,246)	(5,538,756)	(25,128,909)	(23,509,633)	(1,619,276)
<b>CAPITAL ASSETS, net</b>	<u>\$ 27,704,060</u>	<u>\$ 27,362,717</u>	<u>\$ 668,110</u>	<u>\$ 710,600</u>	<u>\$ 28,372,170</u>	<u>\$ 28,073,317</u>	<u>\$ 298,853</u>

Detailed information about the Borough's capital assets can be found in Note E to the Financial Statements.

Construction in progress increased by \$.5 million due to the work on several grant projects, including the beginning stages of Memorial Park phase 3, the ongoing Traffic Signal Closed Loop project, and the Safe Routes to School project.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2018**

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Government machinery and equipment increased by \$.09 million due to the purchase of two new police vehicles.

Infrastructure assets increased by \$1.2 million due to the completion of the Walk-Bike project.

Accumulated depreciation increased by \$1.6 million due to the recording of 2018 depreciation.

**Debt Administration**

Total long-term liabilities were \$43.8 million at December 31, 2018. General Obligation Notes decreased by \$.3 million due to the savings from refinancing of a Borough loan into bonds, and re-classification of the County radio debt. Capital lease payable decreased by \$.1 million reflecting the payment of principal in 2018. The non-uniform pension plan increased by \$3.8 million in general government and by \$.3 million in business type activities.

***Statement of Long-Term Liabilities***

	Beginning Balance	Additions	Reduction	Ending Balance
GOVERNMENTAL ACTIVITIES				
Bonds and notes	\$ 2,846,972	\$ -	\$ (318,812)	\$ 2,528,160
Capital lease payable	784,395	-	(125,619)	658,776
OPEB liability	28,573,447	-	(1,906,117)	26,667,330
Compensated absences	421,928	21,377	-	443,305
Pension liability	7,882,296	3,815,821	-	11,698,117
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 40,509,038</u>	<u>\$ 3,837,198</u>	<u>\$ (2,350,548)</u>	<u>\$ 41,995,688</u>
BUSINESS-TYPE ACTIVITIES				
Compensated absences	\$ 77,486	\$ -	\$ (15,445)	\$ 62,041
OPEB liability	210,385	-	(14,035)	196,350
Pension liability	1,011,127	517,174	-	1,528,301
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 1,298,998</u>	<u>\$ 517,174</u>	<u>\$ (29,480)</u>	<u>\$ 1,786,692</u>

Detailed information about the Borough's long-term liabilities can be found in Note I to the financial statements.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**GOVERNMENTAL FUNDS**

The Borough of Pottstown uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of Governmental Funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, unreserved/undesignated fund balance may serve as a useful measure of the Borough's net resources available for spending at the end of the year. Therefore, some figures will be different in the fund statements than the government-wide statements.

The Borough's Governmental Funds include the General Fund, Special Revenue Funds and Capital Project Funds. The General Fund is the chief operating fund for the Borough. Special Revenue Funds are restricted to specific legislated use. Capital Project Funds account for the proceeds of bond issues. The major funds are shown on the statement of revenues, expenditures and changes in fund balances in the financial statements.

**Governmental Funds Revenues**

Governmental Funds revenues by source at December 31, 2018 and 2017, were as follows:

***Revenues by Source, Governmental Funds***

	<u>2018</u>	<u>2017</u>	<u>Variation</u>
REVENUES			
Taxes	\$ 11,897,458	\$ 11,588,931	\$ 308,527
Intergovernmental	4,861,192	5,001,638	(140,446)
Charges for services	5,345,983	4,814,728	531,255
Fees, licenses and permits	538,307	553,031	(14,724)
Court costs and fines	173,201	170,469	2,732
Interest and rents	150,728	76,112	74,616
Miscellaneous	266,705	94,430	172,275
	<u>                    </u>	<u>                    </u>	<u>                    </u>
TOTAL REVENUES	\$ <u>23,233,574</u>	\$ <u>22,299,339</u>	\$ <u>934,235</u>

Governmental Funds revenues totaled \$23.2 million for the year ended December 31, 2018, which was slightly higher than 2017. Taxes increased by \$.3 million due to the millage increase from 10.34 to 11.58. There was an increase of \$.5 million in charges for services and court costs and fines, which was offset by a slight decrease in building permits issued in 2018.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2018**

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**Governmental Funds Expenditures**

Governmental Funds expenditures by source at December 31, 2018 and 2017, were as follows:

***Expenditures by Function, Governmental Funds***

	<u>2018</u>	<u>2017</u>	<u>Variation</u>
EXPENDITURES			
General government	\$ 2,969,142	\$ 3,247,818	\$ (278,676)
Public safety	9,474,423	9,311,276	163,147
Public works	7,084,804	6,280,279	804,525
Culture and recreation	1,196,766	1,502,195	(305,429)
Capital projects	-	-	-
Conservation and development	1,012,480	769,534	242,946
Debt service	<u>409,133</u>	<u>458,636</u>	<u>(49,503)</u>
TOTAL EXPENDITURES	<u>\$ 22,146,748</u>	<u>\$ 21,569,738</u>	<u>\$ 577,010</u>

Governmental Funds expenditures totaled \$22.1 million for the year ended December 31, 2018, which was \$.5 million more than the \$21.6 million for 2017. This increase is due to general government, and culture and recreation, and capital projects having fewer or no projects than in 2017. The 2016 road restoration was deferred to 2017, and then deferred again to 2018, when it was actually completed.



**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2018

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**Governmental Fund Balances**

The ending balances for Governmental Funds and net position for Proprietary Funds at December 31, 2018, were as follows:

***Ending Fund Balances, Governmental Funds and Net Position, Proprietary Funds***

<u>Fund</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
General Fund	\$ 3,510,236	\$ -
Urban Transit Fund	877,890	-
Refuse Fund	3,376,757	-
Borough Grant Fund	(83,110)	-
Capital Operating Fund	(500,154)	-
Liquid Fuels Fund	962,942	-
Debt Service Fund	63,186	-
Other Governmental Funds	1,377,826	-
Sewer Fund	-	5,566,679
Sewer Collection Lines Fund	-	131,175
	<u>\$ 9,585,573</u>	<u>\$ 5,697,854</u>

The Borough's Governmental Funds reported a combined fund balance of \$9.6 million at December 31, 2018. Governmental Funds had an unassigned fund balance of \$3.1 million and \$.4 million in non-spendable prepaid expenditures. The remaining \$6.1 million is restricted, and is not available for use in meeting the Borough's current and future needs.

The General Fund is the chief operating fund of the Borough. At December 31, 2018, the total General Fund balance was \$3.5 million. The fund balance at the end of 2017 was \$2.4 million, or a 46% increase.

**BUDGETARY HIGHLIGHTS**

The Borough Council revises the budget on an as-needed basis. There are two kinds of revisions:

- Allocations are made to specific line items from other line items or from contingency funds established in the budget.
- New appropriations are budgeted when received, and the anticipated related expense is budgeted at the same time.

Because the Borough is on a different fiscal year than the Commonwealth, it is difficult to know what grants will be forthcoming in the Borough's fiscal year. Many revenue variances are due to budgeting for grants not received. Other revenue variances are based on grants received, but not anticipated.

# **BOROUGH OF POTTSTOWN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **YEAR ENDED DECEMBER 31, 2018**

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#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

##### **Economic Conditions**

The Borough's assessed values decreased by \$30 million in 2018 continuing a long-term trend. This is due to an increasing amount of requests to Montgomery County for property reassessments. The decline in assessed values has negatively impacted the Borough's primary source of operating revenue. In addition, the Borough is an older, densely populated and developed community with aging infrastructure that requires maintenance, rehabilitation, or reconstruction, further straining municipal resources.

In a proactive response, the Borough has utilized Downtown Business Incentives and Community Development Block Grants to provide tools to residents, business and organizations to help bolster economic development. As a result, investment activity is on the rise in downtown Pottstown. The Borough has provided \$80,000 through Downtown Business Incentives to fund the capital fit out of Armstrong Ale House, a brewery pub located on High Street in downtown Pottstown. That project was started in 2017 and finished with an open-house in April of 2018.

Several heritage tourisms and economic and community development initiatives have been implemented in partnership with the Pottstown Downtown Improvement District Authority (PDIDA) and the Pottstown Area Industrial Development Corporation (PAID, Inc.) to meet the goals of the Borough's economic development strategic plan. The Borough partnered with several organizations to develop a Tourism and Recreation District (TREC) located in the western gateway to the Borough. Two attractions in the TREC District, the Carousel at Pottstown and the Colebrookdale Railroad, have brought new inspiration into the Community. Construction started on Walk & Bike Pottstown in late 2017, which will extend the current bicycle lanes on High Street throughout the Borough to increase connectivity and provide more opportunities for active transportation. The project was completed 2018, with a sub-project of Walk-Bike Education carrying over into 2019.

The Borough did participate in a Phase II of DCED's Early Intervention Grant Program in late 2018 to assess the Borough's financial condition and recommend ways to improve economic growth and cut costs. The final document with recommendations was distributed in May of 2019, and will be evaluated for an implementation plan in the forthcoming months.

##### **Market Impact on Investment Income**

The Commonwealth restricts Borough investments to government secured funds and deposits with federally insured institutions. Since the governor signed legislation a few years ago which authorized additional financial products to the approved list of approved investments, higher quality money market instruments, including repurchase agreements, commercial paper, negotiable certificates of deposit and bankers' acceptances, are now approved investments.

##### **Government Funding**

The Borough relies on federal, state and county funding for various purposes including the Urban Transit Program, airport improvements, Parks and Recreation projects and programs, Police Department programs and economic development projects. Funding for these programs varies from year-to-year, and the Borough develops strategies to maximize the impact of these funds.

# **BOROUGH OF POTTSTOWN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) YEAR ENDED DECEMBER 31, 2018**

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### **Personnel Costs**

The Borough has contracts with two unions: The Pottstown Police Officers Association (PPOA) and the American Federation of State County and Municipal Employees (AFSCME). The current AFSCME contract expired on December 31, 2018, and negotiations have carried over into 2019. The PPOA is due to expire on December 31, 2019, and negotiations are expected to begin mid-2019.

### **CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability. Questions concerning this financial information or requests for additional information should be directed to:

Borough of Pottstown  
Director of Finance  
100 East High Street  
Pottstown, PA 19464-9525  
Phone: 610-970-6534  
Fax: 610-970-6595

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2018**

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Unit
ASSETS				
Cash and cash equivalents				
Unrestricted	\$ 7,328,481	\$ 1,968,063	\$ 9,296,544	\$ 844,043
Restricted	354,898	-	354,898	5,752,368
Investments				
Unrestricted	1,014,341	3,342,515	4,356,856	765,125
Restricted	-	-	-	6,475,241
Accounts receivable, net	887,131	1,623,107	2,510,238	1,026,165
Taxes receivable	437,800	-	437,800	-
Due from other governments	524,910	18,035	542,945	-
Other receivables, net	-	-	-	627,393
Prepaid expenses	361,614	79,705	441,319	235,342
Unamortized debt discounts, net	-	-	-	4,916
Capital assets not being depreciated	4,453,233	-	4,453,233	4,786,073
Capital assets being depreciated, net	23,250,827	668,110	23,918,937	53,678,639
TOTAL ASSETS	38,613,235	7,699,535	46,312,770	74,195,305
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding, net of accumulated amortization	-	-	-	628,953
Deferred outflows of resources, pension activity	5,716,472	669,732	6,386,204	993,241
Deferred outflows of resources, OPEB activity	148,915	1,096	150,011	-
TOTAL OUTFLOWS OF RESOURCES	5,865,387	670,828	6,536,215	1,622,194
LIABILITIES				
Accounts payable	767,821	266,232	1,034,053	171,908
Accrued liabilities	104,696	30,800	135,496	-
Interest payable	10,923	-	10,923	72,101
Unearned revenue	38,099	-	38,099	154,526
Due to other governments	-	563,829	563,829	-
Unamortized bond premiums, net	27,395	-	27,395	775,846
Net pension liability	11,698,115	1,528,301	13,226,416	2,266,537
Net OPEB liability	26,667,330	196,350	26,863,680	-
Long-term liabilities				
Portion due or payable within one year	448,388	-	448,388	6,027,080
Portion due or payable after one year	3,154,458	62,041	3,216,499	17,331,076
TOTAL LIABILITIES	42,917,225	2,647,553	45,564,778	26,799,074
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources, pension activity	972,762	-	972,762	-
Deferred inflows of resources, OPEB activity	3,389,488	24,956	3,414,444	-
TOTAL INFLOWS OF RESOURCES	4,362,250	24,956	4,387,206	-
NET POSITION				
Net investment in capital assets	24,517,124	668,110	25,185,234	47,242,460
Restricted for				
Grants	963,479	-	963,479	-
Liquid fuels	962,942	-	962,942	-
Debt service	63,186	-	63,186	12,227,609
Unrestricted	(29,307,584)	5,029,744	(24,277,840)	(10,451,644)
TOTAL NET POSITION	\$ (2,800,853)	\$ 5,697,854	\$ 2,897,001	\$ 49,018,425

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	\$ 3,894,081	\$ 706,696	\$ 86,900	\$ -
Public safety				
Police	10,305,162	468,894	924,084	-
Fire	1,358,622	121,276	98,765	-
Public works				
Zoning	1,389,969	37,091	-	-
Highways	690,207	41,658	629,757	-
Sanitation	2,425,051	2,485,441	45,913	-
Other	2,617,556	1,490,254	2,003,670	-
Culture and recreation				
Recreation	1,023,151	153,596	101,077	111,386
Library	177,572	-	-	-
Conservation and development	173,000	-	41,187	919,670
Interest on long-term debt	80,510	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	24,134,881	5,504,906	3,931,353	1,031,056
Business-type activities				
Sewer	8,930,299	9,882,263	-	-
TOTAL PRIMARY GOVERNMENT	\$ 33,065,180	\$ 15,387,169	\$ 3,931,353	\$ 1,031,056
COMPONENT UNIT				
Pottstown Borough Authority - Public Works	\$ 8,214,229	\$ 6,339,219	\$ 116,092	\$ 1,477,039
GENERAL REVENUES				
Taxes				
Real estate				
Per capita				
Transfer				
Earned income				
LST				
Investment earnings				
Royalties and rental income				
Realized and unrealized gains on investments				
Licenses and fees				
Gain on sale of capital assets				
Miscellaneous				
CONTRIBUTION TO POTTSTOWN BOROUGH AUTHORITY				
REIMBURSEMENT FROM POTTSTOWN BOROUGH AUTHORITY				
TOTAL GENERAL REVENUES, CONTRIBUTIONS, REIMBURSEMENTS AND TRANSFERS				
CHANGE IN NET POSITION				
NET POSITION AT BEGINNING OF YEAR, restated				
NET POSITION AT END OF YEAR				

*See accompanying notes to the basic financial statements.*

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Totals	Component Unit
\$ (3,100,485)	\$ -	\$ (3,100,485)	
(8,912,184)	-	(8,912,184)	
(1,138,581)	-	(1,138,581)	
(1,352,878)	-	(1,352,878)	
(18,792)	-	(18,792)	
106,303	-	106,303	
876,368	-	876,368	
(657,092)	-	(657,092)	
(177,572)	-	(177,572)	
787,857	-	787,857	
(80,510)	-	(80,510)	
(13,667,566)	-	(13,667,566)	
-	951,964	951,964	
(13,667,566)	951,964	(12,715,602)	
			\$ (281,879)
8,689,994	-	8,689,994	-
67,044	-	67,044	-
372,640	-	372,640	-
2,368,144	-	2,368,144	-
399,082	-	399,082	-
115,647	75,503	191,150	159,887
35,081	-	35,081	2,867,746
2,768	9,041	11,809	94,725
541,607	-	541,607	-
380	-	380	-
121,619	76,677	198,296	-
-	(3,100,000)	(3,100,000)	3,100,000
200,000	-	200,000	(200,000)
12,914,006	(2,938,779)	9,975,227	6,022,358
(753,560)	(1,986,815)	(2,740,375)	5,740,479
(2,047,293)	7,684,669	5,637,376	43,277,946
\$ (2,800,853)	\$ 5,697,854	\$ 2,897,001	\$ 49,018,425

**BOROUGH OF POTTSTOWN****BALANCE SHEET****GOVERNMENTAL FUNDS****DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Urban Transit Fund</u>	<u>Refuse Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,439,232	\$ 721,099	\$ 1,775,313
Restricted cash and cash equivalents	-	354,898	-
Investments	-	-	1,014,341
Receivables			
Accounts, net	180,247	-	617,006
Taxes	347,765	-	-
Due from other governments	-	162,317	-
Prepaid expenditures	259,869	-	31,119
Due from other funds	697,390	-	-
	<u>3,924,503</u>	<u>1,238,314</u>	<u>3,437,779</u>
<b>TOTAL ASSETS</b>	<b>\$ 3,924,503</b>	<b>\$ 1,238,314</b>	<b>\$ 3,437,779</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 86,637	\$ 360,424	\$ 56,806
Accrued liabilities	89,442	-	4,216
Due to other funds	-	-	-
Unearned revenue	-	-	-
	<u>176,079</u>	<u>360,424</u>	<u>61,022</u>
<b>TOTAL LIABILITIES</b>	<b>176,079</b>	<b>360,424</b>	<b>61,022</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	<u>238,188</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT)</b>			
Nonspendable, prepaid expenditures	259,869	-	31,119
Restricted for			
Grants	-	963,479	-
Liquid fuels	-	-	-
Debt service	-	-	-
Assigned to			
Airport improvement	-	-	-
Grants	-	-	-
Parking lot program purposes	-	-	-
Street lighting	-	-	-
Fire services	-	-	-
Library	-	-	-
Urban transit	-	-	-
Refuse	-	-	3,345,638
Unassigned	<u>3,250,367</u>	<u>(85,589)</u>	<u>-</u>
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>3,510,236</b>	<b>877,890</b>	<b>3,376,757</b>
	<u>3,924,503</u>	<u>1,238,314</u>	<u>3,437,779</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 3,924,503</b>	<b>\$ 1,238,314</b>	<b>\$ 3,437,779</b>

*See accompanying notes to the basic financial statements.*

<u>Borough Grant Fund</u>	<u>Capital Operating Fund</u>	<u>Liquid Fuels Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 962,942	\$ 63,230	\$ 1,366,665	\$ 7,328,481
-	-	-	-	-	354,898
-	-	-	-	-	1,014,341
-	-	-	38	4,395	801,686
-	-	-	1,596	88,439	437,800
362,593	-	-	-	-	524,910
-	-	-	-	70,626	361,614
-	-	-	-	-	697,390
<u>\$ 362,593</u>	<u>\$ -</u>	<u>\$ 962,942</u>	<u>\$ 64,864</u>	<u>\$ 1,530,125</u>	<u>\$ 11,521,120</u>
\$ 228,467	\$ -	\$ -	\$ 94	\$ 35,393	\$ 767,821
-	-	-	-	11,038	104,696
197,236	500,154	-	-	-	697,390
20,000	-	-	-	18,099	38,099
<u>445,703</u>	<u>500,154</u>	<u>-</u>	<u>94</u>	<u>64,530</u>	<u>1,608,006</u>
-	-	-	1,584	87,769	327,541
-	-	-	-	70,626	361,614
-	-	-	-	-	963,479
-	-	962,942	-	-	962,942
-	-	-	63,186	-	63,186
-	-	-	-	228,567	228,567
-	-	-	-	128,831	128,831
-	-	-	-	104,604	104,604
-	-	-	-	161,061	161,061
-	-	-	-	661,382	661,382
-	-	-	-	22,755	22,755
-	-	-	-	-	-
-	-	-	-	-	3,345,638
<u>(83,110)</u>	<u>(500,154)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,581,514</u>
<u>(83,110)</u>	<u>(500,154)</u>	<u>962,942</u>	<u>63,186</u>	<u>1,377,826</u>	<u>9,585,573</u>
<u>\$ 362,593</u>	<u>\$ -</u>	<u>\$ 962,942</u>	<u>\$ 64,864</u>	<u>\$ 1,530,125</u>	<u>\$ 11,521,120</u>



# **BOROUGH OF POTTSTOWN**

## **RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2018**

---

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 9,585,573
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:	
Cost of capital assets	47,251,723
Accumulated depreciation	(19,547,663)
Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.	4,743,710
Deferred inflows and outflows of resources related to other postemployment benefit activities are not financial resources and therefore not reported in the governmental funds.	(3,240,573)
Long-term liabilities applicable to the Borough's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	
Interest payable	(10,923)
Compensated absences	(443,305)
Capital leases	(658,776)
Bonds payable	(2,265,000)
Note payable	(235,765)
Net OPEB liability	(26,667,330)
Net pension liability	(11,698,115)
Bond premiums are not recorded as liabilities in the Governmental Funds; however, these items are capitalized and amortized in the government-wide financial statements.	(27,395)
Some of the Borough's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	327,541
Receivables in the statement of net position that do not provide current financial resources are not reported in the Governmental Funds.	<u>85,445</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(2,800,853)</u></u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**
**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2018**

	General Fund	Urban Transit Fund	Refuse Fund
REVENUES			
Taxes	\$ 9,526,195	\$ -	\$ -
Intergovernmental	1,010,984	2,003,530	45,913
Charges for services	2,025,826	331,049	2,514,311
Fees, licenses and permits	522,267	-	16,040
Court costs and fines	173,201	-	-
Interest and rents	52,201	-	30,964
Miscellaneous	171,237	140	17,570
TOTAL REVENUES	<u>13,481,911</u>	<u>2,334,719</u>	<u>2,624,798</u>
EXPENDITURES			
General government	2,967,710	-	-
Public safety			
Police department	8,061,943	-	-
Fire department	-	-	-
Public works			
Zoning	506,321	-	-
Highways	229,319	-	-
Sanitation	-	-	2,434,408
Other public works	-	2,518,194	-
Culture and recreation			
Recreation	-	-	-
Library	-	-	-
Conservation and development	115,424	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>11,880,717</u>	<u>2,518,194</u>	<u>2,434,408</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,601,194</u>	<u>(183,475)</u>	<u>190,390</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	380	-	-
Transfers in	-	-	-
Transfers out	(534,500)	-	-
Contribution from Pottstown Borough Authority	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(534,120)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,067,074	(183,475)	190,390
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR, restated	<u>2,443,162</u>	<u>1,061,365</u>	<u>3,186,367</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 3,510,236</u>	<u>\$ 877,890</u>	<u>\$ 3,376,757</u>

*See accompanying notes to the basic financial statements.*

<u>Borough Grant Fund</u>	<u>Capital Operating Fund</u>	<u>Liquid Fuels Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 41,634	\$ 2,329,629	\$ 11,897,458
1,072,243	-	629,757	-	98,765	4,861,192
-	-	-	-	474,797	5,345,983
-	-	-	-	-	538,307
-	-	-	-	-	173,201
-	-	13,325	1,543	52,695	150,728
-	-	-	-	77,758	266,705
<u>1,072,243</u>	<u>-</u>	<u>643,082</u>	<u>43,177</u>	<u>3,033,644</u>	<u>23,233,574</u>
-	-	-	1,432	-	2,969,142
-	-	-	-	-	8,061,943
-	-	-	-	1,412,480	1,412,480
-	-	-	-	-	506,321
26,263	-	958,208	-	312,729	1,526,519
-	-	-	-	-	2,434,408
-	-	-	-	99,362	2,617,556
154,578	-	-	-	864,616	1,019,194
-	-	-	-	177,572	177,572
897,056	-	-	-	-	1,012,480
-	-	-	235,987	84,633	320,620
-	-	-	68,315	20,198	88,513
<u>1,077,897</u>	<u>-</u>	<u>958,208</u>	<u>305,734</u>	<u>2,971,590</u>	<u>22,146,748</u>
<u>(5,654)</u>	<u>-</u>	<u>(315,126)</u>	<u>(262,557)</u>	<u>62,054</u>	<u>1,086,826</u>
-	-	-	-	-	380
-	500,000	-	-	34,500	534,500
-	-	-	-	-	(534,500)
-	-	-	200,000	-	200,000
<u>-</u>	<u>500,000</u>	<u>-</u>	<u>200,000</u>	<u>34,500</u>	<u>200,380</u>
(5,654)	500,000	(315,126)	(62,557)	96,554	1,287,206
<u>(77,456)</u>	<u>(1,000,154)</u>	<u>1,278,068</u>	<u>125,743</u>	<u>1,281,272</u>	<u>8,298,367</u>
<u>\$ (83,110)</u>	<u>\$ (500,154)</u>	<u>\$ 962,942</u>	<u>\$ 63,186</u>	<u>\$ 1,377,826</u>	<u>\$ 9,585,573</u>

# **BOROUGH OF POTTSTOWN**

## **RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2018**

---

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,287,206

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,918,129) exceeds depreciation (\$1,576,786) in the current period.

341,343

Because some property taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.

(554)

Long-term debt proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the statement of net position.

Repayments

Capital leases

125,619

General obligation debt

195,000

Notes payable

117,883

Amortization of bond premiums

5,929

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Compensated absences

(21,377)

Net OPEB obligation

(1,334,456)

Pension plan expense

(1,429,506)

Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

2,075

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the Governmental Funds.

(42,722)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (753,560)

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 1,652,687	\$ 315,376	\$ 1,968,063
Investments	3,342,515	-	3,342,515
Receivables, net	1,623,107	-	1,623,107
Due from other governments	18,035	-	18,035
Prepaid expenses	65,329	14,376	79,705
TOTAL CURRENT ASSETS	<u>6,701,673</u>	<u>329,752</u>	<u>7,031,425</u>
<b>CAPITAL ASSETS</b>			
Capital assets being depreciated	6,249,356	-	6,249,356
Accumulated depreciation	(5,581,246)	-	(5,581,246)
TOTAL CAPITAL ASSETS	<u>668,110</u>	<u>-</u>	<u>668,110</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources, OPEB activity	893	203	1,096
Deferred outflows of resources, pension activity	581,532	88,200	669,732
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>582,425</u>	<u>88,403</u>	<u>670,828</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,952,208</u>	<u>\$ 418,155</u>	<u>\$ 8,370,363</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 235,758	\$ 30,474	\$ 266,232
Accrued liabilities	25,782	5,018	30,800
Due to other governments	563,829	-	563,829
TOTAL CURRENT LIABILITIES	<u>825,369</u>	<u>35,492</u>	<u>860,861</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources, OPEB activity	20,331	4,625	24,956
<b>LONG-TERM LIABILITIES</b>			
Compensated absences	52,836	9,205	62,041
Net OPEB liability	159,961	36,389	196,350
Net pension liability	1,327,032	201,269	1,528,301
TOTAL LONG-TERM LIABILITIES	<u>1,539,829</u>	<u>246,863</u>	<u>1,786,692</u>
<b>NET POSITION</b>			
Net investment in capital assets	668,110	-	668,110
Unrestricted	4,898,569	131,175	5,029,744
TOTAL NET POSITION	<u>5,566,679</u>	<u>131,175</u>	<u>5,697,854</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 7,952,208</u>	<u>\$ 418,155</u>	<u>\$ 8,370,363</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**
**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES			
Charges for services	\$ <u>9,882,263</u>	\$ <u>-</u>	\$ <u>9,882,263</u>
OPERATING EXPENSES			
Sewage disposal	4,112,766	-	4,112,766
Public works, general service	57,961	-	57,961
Sewer lines	-	574,374	574,374
General expenses	126,818	-	126,818
Insurance	64,691	-	64,691
Employee benefits	854,501	-	854,501
General government	9,501	-	9,501
Executive	67,753	-	67,753
Financial administration	218,333	-	218,333
Personnel administration	94,818	-	94,818
Building maintenance	44,397	-	44,397
Depreciation	42,490	-	42,490
Lease payments	<u>2,661,896</u>	<u>-</u>	<u>2,661,896</u>
TOTAL OPERATING EXPENSES	<u>8,355,925</u>	<u>574,374</u>	<u>8,930,299</u>
OPERATING INCOME (LOSS)	<u>1,526,338</u>	<u>(574,374)</u>	<u>951,964</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	74,051	1,452	75,503
Realized and unrealized gains on investments	9,041	-	9,041
Miscellaneous revenue	51,676	1,055	52,731
Cell tower revenues	23,946	-	23,946
Contribution to Pottstown Borough Authority	<u>(3,100,000)</u>	<u>-</u>	<u>(3,100,000)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(2,941,286)</u>	<u>2,507</u>	<u>(2,938,779)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(1,414,948)</u>	<u>(571,867)</u>	<u>(1,986,815)</u>
TRANSFERS			
Transfers in (out)	<u>(610,000)</u>	<u>610,000</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(2,024,948)</u>	<u>38,133</u>	<u>(1,986,815)</u>
NET POSITION AT BEGINNING OF YEAR, restated	<u>7,591,627</u>	<u>93,042</u>	<u>7,684,669</u>
NET POSITION AT END OF YEAR	\$ <u><u>5,566,679</u></u>	\$ <u><u>131,175</u></u>	\$ <u><u>5,697,854</u></u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from charges for services	\$ 9,926,604	\$ -	\$ 9,926,604
Payment to employees	(1,775,046)	(355,871)	(2,130,917)
Payment to suppliers	(3,695,597)	(145,940)	(3,841,537)
Lease payments	<u>(2,661,896)</u>	<u>-</u>	<u>(2,661,896)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,794,065</u>	<u>(501,811)</u>	<u>1,292,254</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from (to) other funds	(610,000)	610,000	-
Contribution to Pottstown Borough Authority	(3,100,000)	-	(3,100,000)
Cell tower revenues	23,946	-	23,946
Miscellaneous revenue	<u>51,676</u>	<u>1,055</u>	<u>52,731</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(3,634,378)</u>	<u>611,055</u>	<u>(3,023,323)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	83,092	1,452	84,544
Purchase of investments	<u>(11,463)</u>	<u>-</u>	<u>(11,463)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>71,629</u>	<u>1,452</u>	<u>73,081</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(1,768,684)</u>	<u>110,696</u>	<u>(1,657,988)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,421,371</u>	<u>204,680</u>	<u>3,626,051</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,652,687</u>	<u>\$ 315,376</u>	<u>\$ 1,968,063</u>

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,526,338	\$ (574,374)	\$ 951,964
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	42,490	-	42,490
Pension expense	210,617	31,944	242,561
OPEB expense	8,004	1,821	9,825
(Increase) decrease in			
Receivables	(30,497)	-	(30,497)
Due from other governments	31,888	-	31,888
Prepaid expenses	11,381	5,618	16,999
Increase (decrease) in			
Accounts payable	(43,523)	29,440	(14,083)
Accrued liabilities	11,634	1,968	13,602
Due to other governments	42,950	-	42,950
Compensated absences	(17,217)	1,772	(15,445)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,794,065</u>	<u>\$ (501,811)</u>	<u>\$ 1,292,254</u>

*See accompanying notes to the basic financial statements.*



**BOROUGH OF POTTSTOWN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2018**

	Pension Trust Funds	
	Police Pension	Non-Uniformed Employees' Pension
<b>ASSETS</b>		
Cash and cash equivalents	\$ 673,382	\$ 444,271
Investments	20,588,258	14,604,845
Receivables	-	-
<b>TOTAL ASSETS</b>	<b>\$ 21,261,640</b>	<b>\$ 15,049,116</b>
<b>LIABILITIES</b>		
Escrow deposits	\$ -	\$ -
Accounts payable	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>		
Restricted and held in trust for		
Pension benefits	21,261,640	15,049,116
Postemployment benefits	-	-
<b>TOTAL NET POSITION</b>	<b>\$ 21,261,640</b>	<b>\$ 15,049,116</b>

*See accompanying notes to the basic financial statements.*

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Post Employment Trust Funds		
<u>OPEB</u>	<u>Police Retirement</u>	<u>Agency Fund</u>
\$ 252,598	\$ 36,290	\$ 398,683
1,106,000	377,171	-
<u>-</u>	<u>-</u>	<u>38,169</u>
\$ <u><u>1,358,598</u></u>	\$ <u><u>413,461</u></u>	\$ <u><u>436,852</u></u>
\$ -	\$ -	\$ 428,857
<u>-</u>	<u>-</u>	<u>7,995</u>
<u>-</u>	<u>-</u>	\$ <u><u>436,852</u></u>
-	-	
<u>1,358,598</u>	<u>413,461</u>	
\$ <u><u>1,358,598</u></u>	\$ <u><u>413,461</u></u>	

**BOROUGH OF POTTSTOWN****STATEMENT OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS****YEAR ENDED DECEMBER 31, 2018**

	Pension Trust Funds	
	Police Pension	Non-Uniformed Employees' Pension
ADDITIONS		
Contributions		
Member contributions	\$ 205,243	\$ 275,632
Borough contribution	1,008,762	326,988
TOTAL CONTRIBUTIONS	1,214,005	602,620
Investment earnings		
Net depreciation in fair value of investments	(1,662,979)	(1,373,520)
Interest and dividend income	444,347	342,649
TOTAL INVESTMENT EARNINGS	(1,218,632)	(1,030,871)
Investment expense	(9,754)	(3,411)
INVESTMENT EARNINGS, net	(1,228,386)	(1,034,282)
TOTAL ADDITIONS (REDUCTIONS)	(14,381)	(431,662)
DEDUCTIONS		
Benefits	1,402,051	1,211,709
Advisor fees	79,654	61,395
Miscellaneous	2,109	124
TOTAL DEDUCTIONS	1,483,814	1,273,228
CHANGE IN NET POSITION	(1,498,195)	(1,704,890)
NET POSITION AT BEGINNING OF YEAR	22,759,835	16,754,006
NET POSITION AT END OF YEAR	\$ 21,261,640	\$ 15,049,116

*See accompanying notes to the basic financial statements.*

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Post Employment Trust Funds

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OPEB	Police Retirement
\$ -	\$ 76,788
250,000	-
<u>250,000</u>	<u>76,788</u>
(87,769)	(28,718)
<u>29,255</u>	<u>9,596</u>
(58,514)	(19,122)
<u>(409)</u>	<u>(183)</u>
<u>(58,923)</u>	<u>(19,305)</u>
<u>191,077</u>	<u>57,483</u>
-	-
6,248	1,453
-	-
<u>6,248</u>	<u>1,453</u>
184,829	56,030
<u>1,173,769</u>	<u>357,431</u>
\$ <u><u>1,358,598</u></u>	\$ <u><u>413,461</u></u>

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Borough of Pottstown (the "Borough"), located in Montgomery County, Pennsylvania, was organized in 1752. The Borough operates under the Borough Code under the laws of the Commonwealth of Pennsylvania and provides the following services: general administrative services, tax collection, public improvements, public safety, conservation and development, culture and recreation and maintenance and repairs of highway and street programs.

The basic financial statements of the Borough have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The operations of the Borough are vested in a mayor and a seven-member council. As required by GAAP, the Borough, for financial reporting purposes, includes all funds relevant to the operations of the Borough. Management, in determining what potential component units should be included for financial reporting purposes, considers financial accountability and the nature and significance of the relationship. Fiscal accountability, the most significant of all criteria, refers to conditions of financial interdependency between two units, including budgetary adoption, taxing authority, responsibility for debt and control over or responsibility for financial management.

Based on the aforementioned criteria, the Borough's component unit is the Pottstown Borough Authority (the "Authority"). The Authority has been reported as a discretely presented component unit in a separate column in the financial statements to emphasize that it is legally separate from the Borough.

**Pottstown Borough Authority** - The Authority is a separate legal entity created to issue bonds to finance the construction and expansion of the sewer system and finance the construction, expansion and operation of a water system. The Borough appoints the Authority Board Members, and the Authority has the potential to provide specific financial benefits or impose specific financial burdens on the Borough.

The Authority is governed by a five-member board appointed by the Borough Council.

The Authority's governing board is responsible for decisions made in the operation of the Authority. The Borough, however, is responsible for funding any deficit which may arise in the operation of the Authority. The Borough also is required to review and approve the Authority's annual operating budget and any amendment thereto. The Borough has guaranteed the debt issued by the Authority in the event the Authority would not be able to meet its obligations to service the debt.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Authority is presented as a Proprietary Fund Type, and its financial statements have been prepared on the accrual basis of accounting. Separately issued financial statements of the Authority may be obtained at the Borough's administrative office.

**Fund Accounting**

The Borough uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Borough functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Borough are grouped into the categories governmental, proprietary and fiduciary.

The Borough reports the following 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 those required to be accounted for in another fund.

**Urban Transit Fund** - The Urban Transit Fund is used to account for the proceeds of specific revenue sources related to the provision of public transportation that are restricted to expenditures for those specified purposes.

**Refuse Fund** - The Refuse Fund is used to account for revenues and expenditures related to the collection of refuse for Borough residents.

**Borough Grant Fund** - The Borough Grant Fund is used to account for grant revenues and expenditures related to the specific purposes of the awarded grants.

**Borough Capital Operating Fund** - The Borough Capital Operating Fund is used to account for capital project expenditures related to the acquisition, construction and renovation of Borough facilities.

**Borough Liquid Fuels Fund** - The Borough Liquid Fuels Fund is used to account for revenue allocated by the Commonwealth of Pennsylvania, grants awarded to the Borough by other governmental units, or transfers from the Borough's General Fund for the purpose of construction, reconstruction, maintenance and repair of the Borough's roads and bridges.

**Borough Debt Service Fund** - The Borough Debt Service Fund is used to account for the accumulation of resources for and payment of general long-term debt principal, interest and related costs.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Borough reports the following Proprietary Funds:

***Sewer Fund and Sewer Collection Lines Fund*** - The Sewer Fund and the Sewer Collection Lines Fund are used to account for the operations of the Borough's Sewer System that is financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and cost reimbursement plans.

Additionally, the Borough reports the following fund types:

***Other Governmental Fund Types***

***Special Revenue Funds*** - Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Borough's Special Revenue Funds include the Airport Fund, Street Lighting Fund, Recreation Fund, Fire Services Fund, Capital Operating Fund, Library Fund and Parking Lot Fund.

***Fiduciary Fund Types***

***Trust and Agency Funds*** - Trust and Agency Funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations. The Borough's Trust and Agency Funds consist of developer escrow deposits held by the Borough and investments held for the Borough's Police Pension Plan, Non-uniformed Employees' Pension Plan, OPEB Trust and the Police Retirement Trust.

***Basis of Presentation and Accounting***

***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 and Agency Funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each discretely presented component unit of the Borough and for each function or program of the Borough's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore 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, which 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 business segment or governmental function is self-financing or draws from the general revenues of the Borough.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

***Fund Financial Statements*** - Fund financial statements report detailed information about the Borough. The focus of Governmental Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor Governmental Funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Borough finances and meets the cash flow needs of its proprietary activities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' ongoing operations. The principal operating revenues of the Borough's Proprietary Funds are sewer rents. Operating expenses of the Borough's Proprietary Funds include supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Borough's Pension Trust Funds, Post Employment Trust Funds, discretely presented component unit and Agency Funds are presented on the accrual basis of accounting, whereby revenues are recognized in the period earned, and expenses are recognized when incurred.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash and Cash Equivalents**

The cash of individual funds and the component unit is combined to form a pool of cash and cash equivalents. Each fund type's portion of the pool is included on the balance sheet or statement of net position as "cash and cash equivalents" under each fund type's caption. The deposits and investments of the Pension Trust Funds and the Post Employment Trust Funds are held separately from those of other Borough funds.

Cash and cash equivalents include cash on hand and in banks and investments in short-term highly liquid investments with original maturities of less than 90 days.

**Investments**

The Borough follows the provisions of GASB Statement No. 31, *Accounting Financial Reporting for Certain Investments and for External Investment Pools*, GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. In accordance with these statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in certificates of deposit are reported at amortized cost.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Receivables**

***Interfund Receivables and Payables*** - Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

***Sewer Revenues and Accounts Receivable*** - Charges for services are recognized when earned. All residential and commercial customers are billed quarterly based on usage. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental activities, business-type activities, or discretely presented component unit columns in the government-wide financial statements. The Borough defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, equipment and infrastructure assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	50
Buildings and building improvements	40-50
Machinery and equipment	5-10
Infrastructure	40-50

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Borough only has three items that qualifies for reporting in this category:

1. The first is the deferred loss on refunding reported by the Pottstown Borough Authority (Component Unit) in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. The second item is the deferred outflow of resources related to pensions is reported in the government-wide statement of net position and the proprietary funds statement of net position. The deferred outflows of resources related to pension activity is the result of the net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience of the pension plan and changes in plan assumptions.
3. The third item is the deferred outflow of resources related to other postemployment benefit which is reported in the government-wide statement of net position and the proprietary funds statement of net position. The deferred outflows of resources related to other postemployment benefit activity is the result of the net difference between projected and actual earnings on plan investments.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has three items that qualify for reporting in this category:

1. Unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
2. The second item is the deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of changes in plan assumptions.
3. The third item is the deferred inflow of resources related to other postemployment benefit which is reported in the government-wide statement of net position and the proprietary funds statement of net position. The deferred outflows of resources related to other postemployment benefit activity is the result of the net difference between projected and actual earnings on plan investments, differences between expected and actual experience of the plan and changes in plan assumptions.

**Compensated Absences**

The Borough follows the provisions of currently effective applicable GASB pronouncements in recording its liability for accrued vacation and sick pay in the respective funds of the Borough. Upon retirement or departure, unused accrued vacation pay will be paid to employees. Vacation is not cumulative from year-to-year. If an exception request approved by Department Head and Manager is granted, no more than two years' worth of vacation leave can accumulate at any one time. Otherwise, annual vacation benefits lapse at the subsequent year's employment anniversary date for non-uniformed employees. Uniformed employees are paid any remaining time on the employment anniversary date.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All full-time employees earn one sick day per month. Upon retirement or departure, if vested, uniformed and non-uniformed employees are paid \$2.00 per hour for unused sick days up to a maximum of 150 days, or 1,200 hours.

**Long-Term Obligations**

In the government-wide financial statements and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position/Fund Balances**

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- ***Net Investment in Capital Assets*** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- ***Restricted*** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted*** - This category represents net position of the Borough not restricted for any project or other purpose.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Beginning with the year ended December 31, 2011, the Borough implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Borough's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as prepaid expenses) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the Borough itself, using its highest level of decision-making authority (the Borough Council). To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the Borough intends to use for a specific purpose. Intent can be expressed by Borough Council or by an official or body to which the Borough Council delegates the authority. The Borough Council has delegated the authority to management to assign fund balance.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

Borough Council establishes (and modifies or rescinds) fund balance commitments by passage of a motion. Assigned fund balance is intended to be used by the Borough for specific purposes but does not meet the criteria to be classified as restricted or committed.

The Borough will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**Use of Estimates**

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

**Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents of \$354,898 at December 31, 2018, represent cash restricted for the acquisition/construction of urban transit capital projects.

**Component Unit - Pottstown Borough Authority**

**Basis of Accounting** - The Pottstown Borough Authority's (the "Authority") financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows.

All activities of the Authority are accounted for within two Proprietary (Enterprise) Funds. Proprietary Funds are used to account for operations that are (1) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into "net investment in capital assets," "restricted for debt service" and "unrestricted" components. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net position.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources and then unrestricted resources as they are needed for their intended purposes.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Capital Assets** - Capital assets, which include property, plant and equipment and infrastructure, are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

Property, plant and equipment and infrastructure of the Authority are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20-50
Buildings	50
Machinery and equipment	5-30

**Cash and Investments Held by Trustee, Restricted** - Restricted cash and investments consist partially of funds of \$6,475,241, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$5,752,368 represents assets established for specific purposes and uses under the Trust Indentures, including debt service, maintenance, capital expenditures and trust administrative expenses.

**Investments** - The Authority follows the provisions of GASB Statement No. 31, *Accounting Financial Reporting for Certain Investments and for External Investment Pools*, GASB Statement No., 72, *Fair Value Measurement and Application* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. In accordance with these statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in certificates of deposit are reported at amortized cost.

**Revenues and Receivables** - Charges for services are recognized when earned. All residential and commercial customers are billed quarterly based on usage. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position** - Net position is categorized as net investment in capital assets, restricted and unrestricted as follows:

- **Net Investment in Capital Assets** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- **Restricted** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This category represents net position of the Authority not restricted for any project or other purpose.

**Use of Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - DEPOSITS AND INVESTMENTS**

**Primary Government**

**Fair Value Measurement** - The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Borough has the following investments with recurring fair value measurements as of December 31, 2018:

Investment Type	Net Asset Value (NAV)	Fair Market Value		
		Level 1	Level2	Level 3
Common stocks	\$ -	\$ 58,592	\$ -	\$ -
US equities	-	17,018,685	-	-
International equities	-	4,718,546	-	-
Taxable fixed income	-	13,138,917	-	-
Mutual funds	-	101,138	-	-
Exchange traded products	-	173,858	-	-
Fixed income ETP's	-	136,260	-	.
Govt/municipal bonds	-	-	4,356,856	-
Hedge fund	1,330,278	-	-	-
	<u>\$ 1,330,278</u>	<u>\$ 35,345,996</u>	<u>\$ 4,356,856</u>	<u>\$ -</u>



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

Investments in hedge funds are values at net asset value in accordance with GASB Statement No. 79. The Borough has \$1,330,278 invested in various hedge funds.

As of December 31, 2018, the Borough's investments had maturities as follows:

Investment Type	Investment Maturities		
	Less Than 1 Year	1 to 5 Years	6 to 10 Years
Common stocks	\$ 58,592	\$ -	\$ -
US equities	17,018,684	-	-
International equities	4,718,545	-	-
Taxable fixed income	13,138,917	-	-
Mutual funds	101,138	-	-
Exchange traded products	173,859	-	-
Fixed income ETP's	136,261	-	-
Govt/municipal bonds	-	4,356,856	-
Hedge fund	1,330,278	-	-
	<u>\$ 36,676,274</u>	<u>\$ 4,356,856</u>	<u>\$ -</u>

**Interest Rate Risk** - This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Borough has a policy regarding interest rate risk.

**Credit Risk** - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Borough has an investment policy that would limit its investment choices to certain credit ratings.

**Custodial Credit Risk** - For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Borough will be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The retirement account is secured by SIPC insurance.

As of December 31, 2018, \$10,685,065 of the Borough's total bank balance of \$11,192,316 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not held in the Borough's name	\$ 9,528,524
Uninsured	<u>1,156,541</u>
	<u>\$ 10,685,065</u>

**Concentration of Credit Risk** - The Borough places no limit on the amount the Borough may invest in any one issuer. No individual investments exceed 5% of the Borough's total investments.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

**Component Unit - Pottstown Borough Authority**

**Fair Value Measurement** - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2018, the Authority had the following recurring fair value measurements and maturities:

Investment Type	Investment Maturities		
	Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Government Treasury strips	\$ 2,216,285	\$ 4,258,956	\$ -
U.S. Government securities	-	765,125	-
	<u>\$ 2,216,285</u>	<u>\$ 5,024,081</u>	<u>\$ -</u>

  

Investment Type	Fair Value		
	Level 1	Level 2	Level 3
U.S. Government Treasury strips	\$ 6,475,241	\$ -	\$ -
U.S. Government securities	765,125	-	-
	<u>\$ 7,240,366</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest Rate Risk** - The Authority does not have a formal investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - The Authority does not have a formal investment policy that would limit its investment choices to certain credit ratings.

**Custodial Credit Risk** - The Authority does not have a formal policy to limit its exposure to custodial credit risk. For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2018, \$6,596,411 of the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not held in the Authority's name	<u>\$ 6,596,411</u>
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**Concentration of Credit Risk** - The Authority places no limit on the amount the Authority may invest in any one issuer.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE C - REAL ESTATE TAXES**

Real estate taxes attach as an enforceable lien on property on May 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 through May 1; face amount, May 2 through July 1; and 10% penalty after July 1. The County bills these taxes which are collected by an independent tax collector. Real estate tax revenues are recognized in the period in which they become susceptible to accrual, that is, when they become both measurable and available. Assessed values of real property are generally 100% of the market value as determined by the Montgomery County Board of Assessment.

The rate of real estate taxation in 2018 was 8.421 mills for general purposes, .906 mills for recreation purposes, .056 mills for debt purposes, .337 mills for street light purposes, 1.630 mills for fire services purposes and .230 mills for library purposes, on a total County assessed valuation of \$772,937,259.

**NOTE D - RECEIVABLES**

Receivables and the related allowance for doubtful accounts as of December 31, 2018, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
<b>GOVERNMENTAL ACTIVITIES/ GOVERNMENTAL FUNDS</b>			
Accounts receivable	\$ 1,020,386	\$ 133,255	\$ 887,131
Taxes receivable	437,800	-	437,800
Due from other governments	524,910	-	524,910
<b>BUSINESS-TYPE ACTIVITIES/ PROPRIETARY FUNDS</b>			
Accounts receivable	\$ 1,810,016	\$ 186,909	\$ 1,623,107
Due from other governments	18,035	-	18,035
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>			
Accounts receivable	\$ 1,223,050	\$ 196,885	\$ 1,026,165
Other receivables	627,393	-	627,393

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE E - CAPITAL ASSETS**

**Primary Government**

A summary of changes in capital assets is as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352
Construction in progress	1,293,828	880,172	(369,119)	1,804,881
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>3,942,180</b>	<b>880,172</b>	<b>(369,119)</b>	<b>4,453,233</b>
Capital assets being depreciated				
Land improvements	10,411,515	111,386	-	10,522,901
Buildings and building improvements	13,682,644	-	-	13,682,644
Machinery and equipment	11,396,446	90,259	-	11,486,705
Infrastructure	5,900,809	1,205,431	-	7,106,240
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>41,391,414</b>	<b>1,407,076</b>	<b>-</b>	<b>42,798,490</b>
Accumulated depreciation				
Land improvements	(5,233,183)	(450,696)	-	(5,683,879)
Buildings and building improvements	(3,788,562)	(279,046)	-	(4,067,608)
Machinery and equipment	(8,330,833)	(687,175)	-	(9,018,008)
Infrastructure	(618,299)	(159,869)	-	(778,168)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(17,970,877)</b>	<b>(1,576,786)</b>	<b>-</b>	<b>(19,547,663)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>23,420,537</b>	<b>(169,710)</b>	<b>-</b>	<b>23,250,827</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 27,362,717</b>	<b>\$ 710,462</b>	<b>\$ (369,119)</b>	<b>\$ 27,704,060</b>
<b>BUSINESS- TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Machinery and equipment	\$ 496,616	\$ -	\$ -	\$ 496,616
Infrastructure	5,752,740	-	-	5,752,740
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>6,249,356</b>	<b>-</b>	<b>-</b>	<b>6,249,356</b>
Accumulated depreciation				
Machinery and equipment	(439,520)	(12,823)	-	(452,343)
Infrastructure	(5,099,236)	(29,667)	-	(5,128,903)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(5,538,756)</b>	<b>(42,490)</b>	<b>-</b>	<b>(5,581,246)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>710,600</b>	<b>(42,490)</b>	<b>-</b>	<b>668,110</b>
<b>BUSINESS- TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 710,600</b>	<b>\$ (42,490)</b>	<b>\$ -</b>	<b>\$ 668,110</b>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE E - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
General government	\$ 317,129
Public safety	219,974
Public works	883,648
Culture and recreation	<u>156,035</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,576,786</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>	
Public works, sewer services	<b>\$ <u>42,490</u></b>

**Component Unit - Pottstown Borough Authority**

A summary of changes in capital assets is as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
<b>SEWER FUND</b>				
Capital assets not being depreciated				
Land	\$ 36,650	\$ -	\$ -	\$ 36,650
Construction in progress	<u>3,527,468</u>	<u>3,647,915</u>	<u>(4,013,499)</u>	<u>3,161,884</u>
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<u>3,564,118</u>	<u>3,647,915</u>	<u>(4,013,499)</u>	<u>3,198,534</u>
Capital assets being depreciated				
Buildings and building improvements	34,334,163	-	-	34,334,163
Machinery and equipment	1,480,096	-	-	1,480,096
Infrastructure	<u>8,729,972</u>	<u>4,013,499</u>	<u>-</u>	<u>12,743,471</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>44,544,231</u>	<u>4,013,499</u>	<u>-</u>	<u>48,557,730</u>
Accumulated depreciation				
Buildings and building improvements	(17,600,457)	(830,771)	-	(18,431,228)
Machinery and equipment	(840,836)	(69,172)	-	(910,008)
Infrastructure	<u>(2,493,573)</u>	<u>(236,262)</u>	<u>-</u>	<u>(2,729,835)</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(20,934,866)</u>	<u>(1,136,205)</u>	<u>-</u>	<u>(22,071,071)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<u>23,609,365</u>	<u>2,877,294</u>	<u>-</u>	<u>26,486,659</u>
<b>SEWER FUND CAPITAL ASSETS, net</b>	<b>\$ <u>27,173,483</u></b>	<b>\$ <u>6,525,209</u></b>	<b>\$ <u>(4,013,499)</u></b>	<b>\$ <u>29,685,193</u></b>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE E - CAPITAL ASSETS (Continued)**

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
<b>WATER FUND</b>				
Capital assets not being depreciated				
Land	\$ 330,179	\$ -	\$ -	\$ 330,179
Construction in progress	3,634,809	1,331,536	(3,708,985)	1,257,360
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	3,964,988	1,331,536	(3,708,985)	1,587,539
Capital assets being depreciated				
Machinery and equipment	1,213,621	-	-	1,213,621
Infrastructure	37,292,285	3,708,985	-	41,001,270
TOTAL CAPITAL ASSETS BEING DEPRECIATED	38,505,906	3,708,985	-	42,214,891
Accumulated depreciation				
Machinery and equipment	(899,602)	(61,927)	-	(961,529)
Infrastructure	(12,975,363)	(1,086,019)	-	(14,061,382)
TOTAL ACCUMULATED DEPRECIATION	(13,874,965)	(1,147,946)	-	(15,022,911)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	24,630,941	2,561,039	-	27,191,980
WATER FUND CAPITAL ASSETS, net	\$ 28,595,929	\$ 3,892,575	\$ (3,708,985)	\$ 28,779,519

Depreciation expense was \$1,136,205 in the Sewer Fund and \$1,147,946 in the Water Fund for the year ended December 31, 2018.

**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)**

**Summary of Significant Accounting Policies**

Police Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Borough's Police Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due as required by the Act For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

**Plan Description**

**Plan Administration** - The Borough administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers. The plan is part of the Borough's financial reporting entity and is included in the Borough's financial statements as a Pension Trust Fund. The plan issues separate, stand-alone financial statements which are available at the Borough of Pottstown office.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

Management of the plan is vested in the Pottstown Police Pension/Investment Board, which consists of up to seven members--three active police officers elected by the Pottstown Police Officers Association, the Mayor, one council person selected by the Borough Council, the Borough Manager and the Borough Finance Director. The Pottstown Police Pension/Investment Board is responsible for advising, reviewing, monitoring and making recommendations to the Borough Council as to the administrative, operation and investment of the plan.

**Plan Membership** - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits <sup>1</sup>	45 <sup>1</sup>
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>38</u>
	<u>85</u>

<sup>1</sup>Includes five members in the DROP.

**Benefits Provided** - The plan provides retirement benefits, as well as death and disability benefits. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average compensation. Final average compensation is the employee's total compensation over the last 36 months of credited service. The service increment benefit is \$100 per month after 26 years of service, increases to \$200 per month after 28 years of service, increases to \$300 per month after 30 years of service, increases to \$400 per month after 32 years of service and increases to \$500 per month in excess of 34 years of service. Early retirement may be taken after 20 years of service. Participants are 100% vested after 12 years of service.

In the event of the death of a member after normal retirement date, the surviving spouse (or the surviving minor children in the absence of a surviving spouse) shall receive at least 50% of the monthly benefit the deceased member had been receiving or was eligible to receive. If the benefit is higher than 50%, it is reduced to 50% of the monthly benefit as of the first day of the month in which the surviving spouse is remarried.

If a member should die without a spouse, each dependent child of the member under the age of 18 (or 24 if attending college) shall receive a proportional share of the 50% monthly benefit. In the event of the death of a member prior to normal retirement date, the surviving spouse (or the surviving minor children in the absence of a surviving spouse) shall receive 100% of compensation payable the year of death including base wages, longevity, college incentive and residency bonuses if killed or dying in the line of service.

Disability benefits are 75% of the compensation earned in the 365 days preceding the incident that caused the disability, including all earned paid leave which can be cashed in. Upon the member's death, 100% of the pension he/she had been receiving will be continued to the surviving spouse (or minor children).

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Contributions** - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer. In accordance with Act 205, the Borough was required to contribute \$1,008,762 to the plan for the year ended December 31, 2018.

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to 5% of the participant's pay.

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Pottstown Police Pension/Investment Board. It is the policy of the Pottstown Police Pension/Investment Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The following was the Board's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
Fixed income	50%
	<u>100%</u>

**Concentrations** - No individual investments exceed 5% of the plan's total investments.

**Rate of Return** - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -6.62%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Net Pension Liability of the Borough**

The components of the net pension liability of the Borough at December 31, 2018, were as follows:

Total pension liability	\$ 29,727,761
Plan fiduciary net position	<u>(21,261,640)</u>
<b>NET PENSION LIABILITY</b>	<b>\$ <u>8,466,121</u></b>
 Plan fiduciary net position as a percentage of the total pension liability	  <u>71.52%</u>

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.00% (average, including inflation)
Investment rate of return	7.00%
Postretirement cost-of-living increase	2.00%

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Due to the size of the plan, there has been no experience studies used to determine plan assumptions.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are 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 the plan's target asset allocation as of December 31, 2018 (see the plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50% - 7.50%
Fixed income	1.00% - 3.00%

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

***Changes in the Net Pension Liability***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	\$ 28,503,837	\$ 22,759,835	\$ 5,744,002
Changes for the year			
Service costs	684,699	-	684,699
Interest costs	1,941,276	-	1,941,276
Contributions			
Employer	-	1,008,762	(1,008,762)
Member	-	205,243	(205,243)
Net investment income	-	(1,306,199)	1,306,199
Benefit payments	(1,402,051)	(1,402,051)	-
Administrative expenses	-	(3,950)	3,950
Net changes	1,223,924	(1,498,195)	2,722,119
Balances at December 31, 2018	\$ 29,727,761	\$ 21,261,640	\$ 8,466,121

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension liability of the Borough, calculated using the discount rate of 7.0%, as well as what the Borough's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Borough's net pension liability	\$ 11,715,247	\$ 8,466,121	\$ 4,988,168

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** - For the year ended December 31, 2018, the Borough recognized pension expense, including the MMO, of \$1,925,307. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 958,147	\$ -
Changes in assumptions	424,629	972,762
Differences between projected and actual investment earnings	<u>2,917,373</u>	<u>-</u>
	<u>\$ 4,300,149</u>	<u>\$ 972,762</u>

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

Year Ending  
December 31,

2019	\$ 1,087,093
2020	600,062
2021	541,957
2022	728,876
2023	184,700
Thereafter	184,699

**Deferred Retirement Option Program**

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option Program (DROP) for a period of not more than 36 months. The member's monthly pension shall be calculated as of their date of participation in the program and shall be distributed in a lump sum at retirement. As of December 31, 2018, five members have elected to participate in the DROP. The total DROP account balance is \$480,028 at December 31, 2018.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND)**

**Summary of Significant Accounting Policies**

Non-Uniformed Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Borough's Non-uniformed Employees' Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due as required by the Act. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

**Plan Description** - The Pottstown Borough Non-Uniformed Employees' Pension Plan is a cost sharing defined benefit pension plan controlled by the provisions of Ordinance No. 1470 adopted pursuant to Act 15 of 1974. The plan is governed by the Pension/Investment Board, which is responsible for the management of plan assets. The Pension/Investment Board has delegated the authority to manage certain plan assets to RBC Wealth Management.

**Plan Membership** - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	50
Inactive plan members entitled to but not yet receiving benefits	7
Active plan members	<u>80</u>
	<u>137</u>

**Benefit Provisions** - The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

**Contributions** - Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. In accordance with the plan's governing ordinance, members are required to contribute at least 5.75% of compensation to the plan. 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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Pottstown Non-uniformed Employees' Pension/Investment Board. It is the policy of the Pottstown Non-uniformed Employees' Pension/Investment Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The following was the Board's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
Fixed income	50%
	<u>100%</u>

**Concentrations** - No individual investments exceed 5% of the plan's total investments.

**Rate of Return** - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -6.9%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Borough**

The components of the net pension liability of the Borough and the Authority at December 31, 2018, were as follows:

***Primary Government - Governmental Activities:***

Total pension liability	\$ 10,153,839
Plan fiduciary net position	<u>(6,921,845)</u>
NET PENSION LIABILITY	<u>\$ 3,231,994</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.17%</u>

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

***Primary Government - Business-Type Activities:***

Total pension liability	\$ 4,801,408
Plan fiduciary net position	<u>(3,273,107)</u>
NET PENSION LIABILITY	<u>\$ 1,528,301</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.17%</u>

***Component Unit - Pottstown Borough Authority:***

Total pension liability	\$ 7,120,701
Plan fiduciary net position	<u>(4,854,164)</u>
NET PENSION LIABILITY	<u>\$ 2,266,537</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.17%</u>

***Actuarial Assumptions*** - The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.00% (average, including inflation)
Investment rate of return	6.50%
Postretirement cost-of-living increase	0.00%

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Due to the size of the plan, there has been no experience studies used to determine plan assumptions.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are 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 the plan's target asset allocation as of December 31, 2018 (see the plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50% - 7.50%
Fixed income	1.00% - 3.00%

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

***Primary Government - Governmental Activities - Changes in Net Pension Liability:***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	\$ 9,844,304	\$ 7,706,010	\$ 2,138,294
Changes for the year			
Service costs	230,136	-	230,136
Interest costs	636,725	-	636,725
Contributions			
Employer	-	150,398	(150,398)
Member	-	126,777	(126,777)
Net investment income	-	(499,065)	499,065
Benefit payments	(557,326)	(557,326)	-
Administrative expenses	-	(4,949)	4,949
Net changes	309,535	(784,165)	1,093,700
Balances at December 31, 2018	\$ 10,153,839	\$ 6,921,845	\$ 3,231,994

***Primary Government - Business-Type Activities - Changes in Net Pension Liability:***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	\$ 4,655,040	\$ 3,643,913	\$ 1,011,127
Changes for the year			
Service costs	108,823	-	108,823
Interest costs	301,086	-	301,086
Contributions			
Employer	-	71,117	(71,117)
Member	-	59,949	(59,949)
Net investment income	-	(235,991)	235,991
Benefit payments	(263,541)	(263,541)	-
Administrative expenses	-	(2,340)	2,340
Net changes	146,368	(370,806)	517,174
Balances at December 31, 2018	\$ 4,801,408	\$ 3,273,107	\$ 1,528,301



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

***Component Unit - Pottstown Borough Authority - Changes in Net Pension Liability:***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2017	\$ 6,903,629	\$ 5,404,083	\$ 1,499,546
Changes for the year			
Service costs	161,390	-	161,390
Interest costs	446,524	-	446,524
Contributions			
Employer	-	105,473	(105,473)
Member	-	88,906	(88,906)
Net investment income	-	(349,985)	349,985
Benefit payments	(390,842)	(390,842)	-
Administrative expenses	-	(3,471)	3,471
Net changes	217,072	(549,919)	766,991
Balances at December 31, 2018	\$ 7,120,701	\$ 4,854,164	\$ 2,266,537

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension liability of the Borough and the Authority, calculated using the discount rate of 6.5%, as well as what the Borough and the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

***Primary Government - Governmental Activities:***

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 4,217,926	\$ 3,231,994	\$ 2,395,421

***Primary Government - Business-Type Activities:***

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 1,994,100	\$ 1,528,301	\$ 1,132,478

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

***Component Unit - Pottstown Borough Authority:***

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 2,958,369	\$ 2,266,537	\$ 1,680,100

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** - For the year ended December 31, 2018, the Borough recognized pension expense of \$976,999 and the Authority recognized pension expense of \$465,205. At December 31, 2018, the Borough and the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

***Primary Government - Governmental Activities:***

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 88,510	\$ -
Changes in assumptions	252,378	-
Differences between projected and actual investment earnings	1,075,435	-
	\$ 1,416,323	\$ -

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED EMPLOYEES' PENSION TRUST FUND) (Continued)**

***Primary Government - Business-Type Activities:***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 41,853	\$ -
Changes in assumptions	119,342	-
Differences between projected and actual investment earnings	<u>508,537</u>	<u>-</u>
	<u>\$ 669,732</u>	<u>\$ -</u>

***Component Unit - Pottstown Borough Authority:***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 62,070	\$ -
Changes in assumptions	176,988	-
Differences between projected and actual investment earnings	<u>754,183</u>	<u>-</u>
	<u>\$ 993,241</u>	<u>\$ -</u>

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

<u>Year Ending December 31,</u>	
2019	\$ 1,166,792
2020	657,124
2021	639,312
2022	616,068

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**Plan Description**

The Borough administers a single-employer postemployment benefit plan that covers health insurance for eligible retirees. In addition, effective January 1, 1999, officers' spouses not covered by other health care benefits are covered 100% by the Borough. The plan is governed by the Collective Bargaining Agreements between the Borough and the Pottstown Borough Police Association and the Collective Bargaining Agreement between the Borough and management. The agreement provides the authority under which benefit provisions for the Plan were established and may be amended. The plan does not issue a publicly available financial report.

**Plan Membership**

As of the actuarial valuation date of January 1, 2018, plan membership consisted of the following:

Active participants	130
Retired participants	<u>52</u>
	<u>182</u>

**Funding Policy**

The contribution requirements of the Borough are established and may be amended by the establishment of a new agreement between the Borough and the Pottstown Borough Police Association. The plan requires police officers who retire on/after January 1, 1999, to contribute 2% of base pay while actively working. The Borough funds the plan on a pay-as-you-go basis. For 2018, the members contributed \$76,788 and the Borough contributed \$250,000 to the plan for current premiums, using the implicit rate subsidy.

**Benefits Provided**

The plan provides the following benefits:

Police:

- For officers who retired prior to January 1, 1999, the Borough will contribute the medical and prescription drug premium at retirement until Medicare age. The retiree will be responsible for paying any increases in premium. Upon reaching Medicare age, the retiree receives free coverage.
- Officers who retire on or after January 1, 1999 contribute 2% of base pay while actively working. Upon retirement medical, prescription drug and dental coverage become non-contributory. Retired officers and their spouse are also eligible to receive Medicare Part B premium reimbursement.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

- Spouses of police officers who retired prior to January 1, 1999 are not eligible to receive coverage. Spouses of police officers who retired on or after January 1, 1999 can continue coverage upon death of the retiree.

Management:

- The Borough will contribute the medical and prescription drug premium at retirement. The retiree will be responsible for paying any increases in premium.

Life Insurance:

- Management and Police who retire on or after January 1, 1999 and AFSCME who retire on or after October 1, 2002 are eligible to receive life insurance coverage in the amount of \$10,000 upon retirement. Members who retired prior to those dates were eligible to receive life insurance for different amounts.

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Borough Council. The following was the Borough Council's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Large cap value	5% - 40%
Small-mid value	5% - 20%
International high dividend	5% - 20%
Fixed income	5% - 40%
MLP	2% - 15%
Money fund	2% - 20%

**Rate of Return** - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan expenses was -6.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Net OPEB Liability of the Borough***

The components of the net pension liability of the Borough at December 31, 2018, were as follows:

Total OPEB liability	\$ 28,635,739
Plan fiduciary net position	<u>(1,772,059)</u>
NET OPEB LIABILITY	<u>\$ 26,863,680</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>6.19%</u>

**Actuarial Assumptions** – The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.00% (average, including inflation)
Investment rate of return	6.50%

The healthcare cost trend rate is 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

The discount rate was determined using the procedures of Illustration B2 in the GASB 74 implementation guide. The long-term expected rate of return on OPEB plan investments is 6.50% and the municipal bond rate is 3.64% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

**Changes in Assumptions** - In the 2018 actuarial valuation, the discount rate changed from 3.52% to 4.10%.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Changes in the Net OPEB Liability***

	Governmental Activities		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a)-(b)
Balances at December 31, 2017	\$ 30,093,456	\$ 1,520,008	\$ 28,573,448
Changes for the year			
Service costs	1,414,120	-	1,414,120
Interest costs	1,099,239	-	1,099,239
Changes of benefit terms	71,290	-	71,290
Changes for experience	(686,823)	-	(686,823)
Changes for assumptions	(3,049,465)	-	(3,049,465)
Contributions			
Employer	-	763,553	(763,553)
Member	-	76,227	(76,227)
Net investment income	-	(77,068)	77,068
Benefit payments	(515,380)	(515,380)	-
Administrative expenses	-	(8,233)	8,233
Net changes	(1,667,019)	239,099	(1,906,118)
Balances at December 31, 2018	\$ 28,426,437	\$ 1,759,107	\$ 26,667,330

	Business-Type Activities		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a)-(b)
Balances at December 31, 2017	\$ 221,576	\$ 11,192	\$ 210,384
Changes for the year			
Service costs	10,412	-	10,412
Interest costs	8,094	-	8,094
Changes of benefit terms	525	-	525
Changes for experience	(5,057)	-	(5,057)
Changes for assumptions	(22,453)	-	(22,453)
Contributions			
Employer	-	5,622	(5,622)
Member	-	561	(561)
Net investment income	-	(567)	567
Benefit payments	(3,795)	(3,795)	-
Administrative expenses	-	(61)	61
Net changes	(12,274)	1,760	(14,034)
Balances at December 31, 2018	\$ 209,302	\$ 12,952	\$ 196,350

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the net OPEB liability of the Borough, as well as what the Borough's net OPEB liability would be if it were calculated using a discount rate that is 1% point lower (5.10%) or 1% point higher (3.10%) than the current discount rate:

	1% Decrease (5.10%)	Current Discount Rate (4.10%)	1% Increase (3.10%)
Borough's net OPEB liability	\$ <u>22,479,823</u>	\$ <u>26,863,680</u>	\$ <u>32,454,557</u>

***Sensitivity of the Net OPEB Liability to Changes on the Healthcare Cost Trend Rates***

The following presents the net OPEB Liability of the Borough, as well as what the Borough's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% point lower (5.00%) or 1% point higher (7.00%) than the current healthcare cost trend rate:

	1% Decrease (5.0%)	Healthcare Cost Trend Rate (6.0%)	1% Increase (7.0%)
Borough's net OPEB liability	\$ <u>33,727,467</u>	\$ <u>26,863,680</u>	\$ <u>21,682,814</u>

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - For the year ended December 31, 2018, the Borough recognized OPEB expense of \$2,154,210. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 618,141
Changes in assumptions	-	2,744,518
Differences between projected and actual investment earnings	<u>148,915</u>	<u>26,829</u>
	\$ <u>148,915</u>	\$ <u>3,389,488</u>



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

	Business-Type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,551
Changes in assumptions	-	20,208
Differences between projected and actual investment earnings	1,096	197
	<u>\$ 1,096</u>	<u>\$ 24,956</u>

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

Year Ending December 31,	Governmental Activities	Business-Type Activities
2019	\$ (345,342)	\$ (2,543)
2020	(345,342)	(2,543)
2021	(345,344)	(2,543)
2022	(336,401)	(2,477)
2023	(373,629)	(2,751)
Thereafter	(1,494,115)	(11,203)

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE I - LONG-TERM LIABILITIES**

**Primary Government**

A summary of changes in long-term liabilities is as follows:

	Balance Outstanding January 1, 2018	Additions	Deletions	Balance Outstanding December 31, 2018	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premiums	\$ 33,324	\$ -	\$ (5,929)	\$ 27,395	\$ -
General Obligation Bond, Series of 2017	2,460,000	-	(195,000)	2,265,000	200,000
Promissory Note, Series of 2015	353,648	-	(117,883)	235,765	117,883
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<b>2,846,972</b>	<b>-</b>	<b>(318,812)</b>	<b>2,528,160</b>	<b>317,883</b>
<b>OTHER LIABILITIES</b>					
Capital leases	784,395	-	(125,619)	658,776	130,505
Net OPEB obligation	28,573,447	-	(1,906,117)	26,667,330	-
Compensated absences	421,928	21,377	-	443,305	-
Pension liability	7,882,296	3,815,819	-	11,698,115	-
<b>TOTAL OTHER LIABILITIES</b>	<b>37,662,066</b>	<b>3,837,196</b>	<b>(2,031,736)</b>	<b>39,467,526</b>	<b>130,505</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 40,509,038</b>	<b>\$ 3,837,196</b>	<b>\$ (2,350,548)</b>	<b>\$ 41,995,686</b>	<b>\$ 448,388</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Compensated absences	\$ 77,486	\$ -	\$ (15,445)	\$ 62,041	\$ -
Net OPEB obligation	210,385	-	(14,035)	196,350	-
Pension liability	1,011,127	517,174	-	1,528,301	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 1,298,998</b>	<b>\$ 517,174</b>	<b>\$ (29,480)</b>	<b>\$ 1,786,692</b>	<b>\$ -</b>

For governmental activities, other liabilities are generally liquidated by the General Fund.

**General Obligations Bonds, Series of 2017** - The General Obligation Bonds, Series of 2017, were issued January 26, 2017, in the amount of \$2,640,000 to current refund the Borough's General Obligation Bonds, Series of 2012 and pay the costs of issuing the bonds. The refunding resulted in an economic gain of \$112,793, and a decrease in future cash flows of \$56,561.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing June 1,</u>	<u>Interest Rate</u>
\$ 200,000	\$ 59,458	2019	3.00%
210,000	52,258	2020	4.00%
220,000	43,658	2021	4.00%
225,000	37,008	2022	2.00%
230,000	32,285	2023	2.15%
235,000	27,110	2024	2.30%
240,000	21,528	2025	2.40%
245,000	15,524	2026	2.55%
250,000	9,088	2027	2.65%
<u>210,000</u>	<u>2,888</u>	2028	2.75%
<u>\$ 2,265,000</u>	<u>\$ 300,805</u>		

**Promissory Note, Series of 2015** - The Borough issued an interest-free Promissory Note with Montgomery County, Pennsylvania in the amount of \$589,413 to be repaid in five annual installments of \$117,882.76 each year through January 25, 2020; for the purpose of providing funds for the ability to purchase, from Motorola, emergency radio equipment at a discount.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE I - LONG-TERM LIABILITIES (Continued)**

**Component Unit - Pottstown Borough Authority**

A summary of changes in long-term liabilities is as follows:

	Outstanding January 1, 2018	Additions	Deletions	Outstanding December 31, 2018	Due Within One Year
<b>SEWER FUND</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premiums	\$ 914,603	\$ -	\$ (230,417)	\$ 684,186	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	7,738,573	518,228 (1)	(2,265,000)	5,991,801	2,140,980
Guaranteed Sewer Revenue Bonds					
Series of 2012	2,850,000	-	(320,000)	2,530,000	330,000
Series of 2016	7,985,000	-	(1,860,000)	6,125,000	1,945,000
<b>TOTAL SEWER FUND BONDS AND NOTES PAYABLE</b>	<b>\$ 19,488,176</b>	<b>\$ 518,228</b>	<b>\$ (4,675,417)</b>	<b>\$ 15,330,987</b>	<b>\$ 4,415,980</b>
<b>WATER FUND</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premium	\$ 183,319	\$ -	\$ (91,659)	\$ 91,660	\$ -
Bond discount	(6,022)	-	1,106	(4,916)	-
Bonds payable					
Guaranteed Water Revenue Bonds					
Series of 2007	2,552,636	-	(206,552)	2,346,084	216,100
Series of 2012	5,070,000	-	(75,000)	4,995,000	75,000
Series A of 2016	2,575,000	-	(1,255,000)	1,320,000	1,320,000
<b>TOTAL WATER FUND BONDS AND NOTES PAYABLE</b>	<b>10,374,933</b>	<b>-</b>	<b>(1,627,105)</b>	<b>8,747,828</b>	<b>1,611,100</b>
<b>OTHER LIABILITIES</b>					
Compensated absences	45,108	5,164	-	50,272	-
Pension liability	1,499,546	766,991	-	2,266,537	-
<b>TOTAL WATER FUND OTHER LIABILITIES</b>	<b>1,544,654</b>	<b>772,155</b>	<b>-</b>	<b>2,316,809</b>	<b>-</b>
<b>TOTAL WATER FUND LONG-TERM LIABILITIES</b>	<b>\$ 11,919,587</b>	<b>\$ 772,155</b>	<b>\$ (1,627,105)</b>	<b>\$ 11,064,637</b>	<b>\$ 1,611,100</b>
<b>TOTALS SEWER AND WATER FUNDS</b>	<b>\$ 31,407,763</b>	<b>\$ 1,290,383</b>	<b>\$ (6,302,522)</b>	<b>\$ 26,395,624</b>	<b>\$ 6,027,080</b>

(1) Amount represents increase in accreted value of bonds.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

**Guaranteed Sewer Bonds, Series of 1991**

On September 15, 1991, the Authority issued approximately \$15.4 million in Guaranteed Sewer Bonds for the purpose of refunding the Authority's debt service on the Guaranteed Sewer Bonds, Series of 1989, maturing from November 1, 1991 to and including May 1, 1999. The bonds issued are in the form of capital appreciation bonds, which means bonds that bear no periodic, current interest but which accrete in value from the date thereof to the date of maturity thereof at the compounded yield to maturity on the original principal amount, in lieu of such periodic, current interest. The original maturity value of the Series of 1991 Bonds is \$51,085,000. The remaining value of the Series of 1991 Bonds is \$6,755,000 as of December 31, 2018. The funds have been deposited in an irrevocable trust to provide stated debt service payments on the 1989 Guaranteed Sewer Bonds.

The Pottstown Borough Authority Sewer Bonds, Series of 1991, are secured by a Trust Indenture. The bonds are payable out of escrow funds and revenues of the Authority, principally from a Fourth Supplemental Lease dated December 15, 1996, originally dated May 1, 1989, between the Authority (lessor) and the Borough (lessee). The Borough agrees to pay semiannual rents of varying amounts coinciding with the lift of the Authority bond issue and sufficient to pay the Authority's debt service requirements.

The Authority entered into an escrow agreement on December 15, 1996, whereby funds were deposited in an escrow account to fund a portion of maturity values for the 1991 Bonds. At December 31, 2018, the value of the escrow account included in cash and investments held by the trustee was \$6,475,241. The portion of the 1991 accreted value bonds for which funds are escrowed is presented below:

<u>Total Bonds Outstanding</u>	<u>Portion of Bonds Outstanding for Which Funds are Escrowed</u>	<u>Maturing May 1, and November 1,</u>	<u>Interest Rate</u>
\$ 2,140,980	\$ 2,140,980	2019	7.05%
1,991,083	1,991,083	2020	7.05%
<u>1,859,738</u>	<u>1,859,738</u>	2021	7.05%
<u>\$ 5,991,801</u>	<u>\$ 5,991,801</u>		

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

Bonds outstanding at gross maturity value are as follows:

TOTAL GROSS MATURITY VALUE OUTSTANDING AT DECEMBER 31, 2018	\$ 6,775,000
Discount	<u>(783,199)</u>
TOTAL ACCRETED VALUE AT DECEMBER 31, 2018	<u>\$ 5,991,801</u>

**Water Revenue Bonds, Series of 2007**

In 2007, the Authority issued Water Revenue Bonds, Series of 2007, dated December 28, 2007, in the amount of \$4,177,250. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Fifth Supplemental Indenture dated December 28, 2007. The bonds are payable out of the receipts and revenues of the water system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate of 4.57% over the life of the bonds. The bonds will fully mature in December 2027. The bonds were issued to undertake certain capital projects related to the Authority's water system, fund a Debt Service Reserve Fund, provide for capitalized interest on the bonds and pay the costs in connection with the issuance of the bonds.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 216,100	\$ 104,775	2019	4.57%
226,088	94,786	2020	4.57%
236,538	84,336	2021	4.57%
247,472	73,403	2022	4.57%
258,911	61,964	2023	4.57%
<u>1,160,975</u>	<u>122,522</u>	2024 to 2028	4.57%
<u>\$ 2,346,084</u>	<u>\$ 541,786</u>		

**Sewer Revenue Bonds of 2012**

In 2012, the Authority issued Sewer Revenue Bonds of 2012, dated April 15, 2012, in the amount of \$4,570,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Seventh Supplemental Indenture dated April 15, 2012. The bonds are payable out of the receipts and revenues of the sewer system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

The bonds bear an interest rate ranging from 2.00% to 3.25% over the life of the bonds. The bonds will fully mature in November 2025. The bonds were issued to currently refund \$4,390,000 of the outstanding Sewer Revenue Bonds, Series of 2005, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$160,621. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$271,959 and a reduction of \$290,969 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 330,000	\$ 75,813	2019	2.50%
340,000	67,563	2020	2.75%
350,000	58,213	2021	3.00%
360,000	47,713	2022	3.00%
370,000	36,913	2023	3.13%
<u>780,000</u>	<u>38,188</u>	2024 to 2025	3.25%
 \$ <u>2,530,000</u>	 \$ <u>324,403</u>		

**Water Revenue Bonds of 2012**

In 2012, the Authority issued Water Revenue Bonds of 2012, dated May 15, 2012, in the amount of \$5,395,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Seventh Supplemental Indenture dated May 15, 2012. The bonds are payable out of the receipts and revenues of the sewer system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 2.00% to 2.55% over the life of the bonds. The bonds will fully mature in December 2023.

The bonds were issued to advance refund a portion (\$4,765,000) of the outstanding Water Revenue Bonds of 2009, Series AA, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$563,885. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$164,066 and a reduction of \$165,368 in future debt service payments.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 75,000	\$ 113,560	2019	2.00%
1,470,000	112,060	2020	2.05%
1,505,000	81,925	2021	2.25%
1,535,000	48,063	2022	2.45%
<u>410,000</u>	<u>10,455</u>	2023	2.55%
<u>\$ 4,995,000</u>	<u>\$ 366,063</u>		

**Guaranteed Revenue Sewer Bonds, Series of 2016**

In 2016, the Authority issued \$11,165,000 in Guaranteed Revenue Sewer Bonds, Series of 2016, dated August 29, 2016. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Eighth Supplemental Indenture dated August 29, 2016. The bonds are payable out of the receipts and revenues of the sewer system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 0.65% to 5.00% over the life of the bonds. The bonds will fully mature in November 2021. The bonds were issued to currently refund \$11,970,000 of the outstanding Sewer Revenue Bonds, Series of 2006, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$304,692. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$818,797 and a reduction of \$820,652 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 1,945,000	\$ 306,250	2019	5.00%
2,035,000	209,000	2020	5.00%
<u>2,145,000</u>	<u>107,250</u>	2021	5.00%
<u>\$ 6,125,000</u>	<u>\$ 622,500</u>		



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE I - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds of 2016, Series A**

In 2016, the Authority issued Water Revenue Bonds of 2016, dated August 29, 2016, in the amount of \$4,855,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Eighth Supplemental Indenture dated August 29, 2016. The bonds are payable out of the receipts and revenues of the water system and by certain funds under the Indenture. The Authority entered into a Guaranty Agreement with the Borough and the trustee, whereby the Borough has guaranteed the payment of principal and interest.

The bonds bear an interest rate ranging from 0.65% to 5.00% over the life of the bonds. The bonds will fully mature in December 2019. The bonds were issued to currently refund the remainder of the outstanding Water Revenue Bonds of 2009, Series AA, of \$5,070,000, and pay the costs in connection with the issuance of the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$31,118. This amount is being netted against the new debt and amortized over the life of the bonds. The current refunding also resulted in an economic gain of \$228,538 and a reduction of \$229,320 in future debt service payments.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ <u>1,320,000</u>	\$ <u>66,000</u>	2019	5.00%

**Bond Covenants**

The Authority complied with the bond covenants pertaining to the rate covenant and the debt service reserve funds withdrawals for the Authority's Guaranteed Water Revenue Bonds and Sewer Revenue Bonds.

**NOTE J - CAPITAL LEASE**

In 2009, the Borough entered into a capital lease in order to finance the purchase of several capital assets. Payments on the lease began in July 2010 and will continue through July 2019. In 2015, the Borough entered into a capital lease in order to finance the purchase of a custom KME Panther 79' Aerial Fire Truck. Payments on the lease began in October 2015 and will continue through April 2025.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE J - CAPITAL LEASE (Continued)**

The assets acquired through the capital leases are as follows:

Equipment	\$ 1,930,803
Accumulated depreciation	<u>(1,368,923)</u>
	<u>\$ 561,880</u>

Future minimum lease payments together with the present value of the net minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 150,651
2020	104,831
2021	104,831
2022	104,831
2023	104,831
2024 to 2025	<u>157,246</u>
	727,221
Amount representing interest	<u>(68,445)</u>
 TOTAL PRESENT VALUE OF MINIMUM LEASE PAYMENT	 <u>\$ 658,776</u>

**NOTE K - CONDUIT DEBT - COMPONENT UNIT - POTTSTOWN BOROUGH AUTHORITY**

In 2002, the Authority issued Educational Facilities Variable Rate Demand Revenue Bonds totaling \$7,000,000 for the purpose of assisting with the financing needed by a privately owned school for the construction and equipping of a multi-purpose field house and a maintenance building within the Borough. Final maturity of the bonds is February 1, 2030. The bonds were secured by a bank irrevocable direct-pay letter of credit (existing credit facility), which was scheduled to expire on June 3, 2013.

On May 1, 2013, the Authority and the trustee entered into a First Supplemental Trust Indenture. Under the Indenture, the bonds are subject to mandatory tender for purchase. The bonds were purchased by M&T Trust Company (M&T) with proceeds of a drawing under the existing credit facility. The bonds shall be held by the trustee on behalf of M&T as bank bonds, and the existing credit facility will be terminated.

In November 2008, the Authority authorized the issuance of a Revenue Note totaling \$4,000,000 for the purpose of assisting a Pennsylvania nonprofit corporation in the acquisition, improvement, construction and equipping of a rehabilitation facility within the Borough. The note was paid in full April 27, 2018. The note is secured by various assets of the borrower.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE K - CONDUIT DEBT - COMPONENT UNIT - POTTSTOWN BOROUGH AUTHORITY**  
**(Continued)**

The Authority has no liability for the bonds or note in the event of default by the borrowers. Accordingly, the bonds and note are not reported as liabilities in the Authority's financial statements.

**NOTE L - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables balances consist of the following at December 31, 2018:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
GOVERNMENTAL FUNDS		
General Fund	\$ 697,390	\$ -
Capital Operating Fund	-	500,154
Grant Fund	-	197,236
	<u>          </u>	<u>          </u>
	<u>\$ 697,390</u>	<u>\$ 697,390</u>

The Borough utilizes a pooled cash account to enhance investment return. Therefore, interfund receivables and payables are recorded to recognize amounts held by certain funds in the pooled account on behalf of other funds.

Interfund transfers are executed as a result of the requirement for certain funds to fund a portion of the expenditures of other funds. Interfund operating transfers are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
GOVERNMENTAL FUNDS		
General Fund	\$ 534,500	\$ -
Parking Lot Fund	-	34,500
Capital Operating Fund	-	500,000
TOTAL GOVERNMENTAL FUNDS	<u>534,500</u>	<u>534,500</u>
PROPRIETARY FUNDS		
Sewer Fund	610,000	-
Sewer Collection Lines Fund	-	610,000
TOTAL PROPRIETARY FUNDS	<u>610,000</u>	<u>610,000</u>
 TOTAL TRANSFERS	 <u>\$ 1,144,500</u>	 <u>\$ 1,144,500</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**NOTE M - RISK MANAGEMENT**

The Borough maintains an insurance policy for workers' compensation insurance. Insurance premiums are developed based on employee job descriptions, rate factors and payroll costs for the year. The policy has an audit performed each year, and the Borough may be required to pay an additional premium as a result of the audit, or the Borough may be entitled to a refund as a result of the audit. Such year-end adjustments due to the payroll audit have historically not been significant. In addition, the Borough is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; health care costs; and natural disasters for which the Borough carries commercial insurance. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage for each of the past three years.

**NOTE N - MANAGEMENT AGREEMENT**

Effective November 15, 1990, and as amended with the First Supplemental Management Agreement dated July 15, 1998, and the Second Supplemental Management Agreement dated August 19, 2007, the Borough entered into a management agreement with the Authority to manage the day-to-day operations of the water system to include repair, maintenance and administration. The management agreement expires in 2025. The management fee to be paid to the Borough will be the greater of \$100,000 or a sum equal to 6.1% of the aggregate of the budgeted annual costs of operating and maintaining the water system and 115% of the average annual debt service requirements on water revenue bonds. Management fee income for the year ended December 31, 2018, was \$396,958.

**NOTE O - SEWER AGREEMENTS**

The sewer system and related assets are owned by the Authority and leased to the Borough. The Authority leases the operation and maintenance of the sewer system to the Borough under the Agreements of Lease dated May 1, 1989, the First Supplemental Agreement of Lease dated September 15, 1991, the Second Supplemental Agreement of Lease dated January 15, 1994, the Third Supplemental Agreement of Lease dated August 1, 1995, the Fourth Supplemental Agreement of Lease dated December 15, 1996, the Fifth Supplemental Agreement of Lease dated February 1, 2005, the Sixth Supplemental Agreement dated November 15, 2006, the Seventh Supplemental Agreement dated April 15, 2012, and the Eight Supplemental Agreement dated August 29, 2016.

The lease terms stipulate that the Borough is to pay fixed rentals to the Authority, net of interest collected on funds held by the trustee, until sufficient funds become available in the Trust Indenture accounts to meet the full debt service or redemption price of the outstanding revenue bonds secured by the Trust Indentures. The Authority is responsible for all care, maintenance and improvements to the leased property. These rentals are paid in two semiannual installments due on May 1 and November 1 of each lease year in varying amounts through November 1, 2025. Upon expiration of the lease, the leased property reverts to the Authority.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE O - SEWER AGREEMENTS (Continued)**

Future minimum payments under the sewer system lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 2,657,063
2020	2,651,563
2021	2,660,463
2022	407,713
2023	406,916
2024 to 2025	<u>818,188</u>
	<u>\$ 9,601,906</u>

Payments made by the Borough to the Authority in 2018 were \$2,661,896.

**NOTE P - GUARANTEES**

The Borough is guarantor of the following Sewer Revenue Bonds and the Water Revenue Bonds of the Authority:

	<u>Year of</u> <u>Issue</u>	<u>Outstanding at</u> <u>December 31,</u> <u>2018</u>
Guaranteed Sewer Revenue Bonds	1991	\$ 5,991,801
Guaranteed Sewer Revenue Bonds	2012	2,530,000
Guaranteed Sewer Revenue Bonds	2016	6,125,000
Guaranteed Water Revenue Bonds	2007	2,346,084
Guaranteed Water Revenue Bonds	2012	4,995,000
Guaranteed Water Revenue Bonds	2016 A	1,320,000

The Borough has not made any payments on the above bond issues as guarantor.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE Q - INTERGOVERNMENTAL SEWER CHARGES**

The Borough has agreements with Lower Pottsgrove, West Pottsgrove and Upper Pottsgrove Townships to treat sewage flows emanating from these townships. Annual sewer system costs are allocated to each township based on each party's share of the metered flows. Intergovernmental sewer charges for the year ended December 31, 2018, which represent 8.4% of the total sewer operating revenues, were as follows:

Lower Pottsgrove Township	\$ 522,643
Upper Pottsgrove Township	95,743
West Pottsgrove Township	<u>208,737</u>
	<u>\$ 827,123</u>

**NOTE R - LEGAL COMPLIANCE**

For the year ended December 31, 2018, the Borough Grant Fund had a deficit fund balance of \$83,110 and the Borough Capital Operating Fund had a deficit fund balance of \$500,154.

**NOTE S - SALE OF WATER DISTRIBUTION FACILITY - COMPONENT UNIT - POTTSTOWN BOROUGH AUTHORITY**

In April 2002, the Authority sold a portion of its water distribution facility in Chester County to a township. The Authority also entered into a Bulk Water Purchase Agreement with the township for an initial term of five years, which automatically renewed for an additional five years as neither party gave the other party prior written notice of its intention not to renew. Under this agreement, the Authority received \$2.34 per thousand gallons of water delivered for the first three years of the term. After three years, the rate increased to \$3.56 per thousand gallons of water delivered each year of the agreement. Effective, January 1, 2012, the rate increased to \$3.60 per thousand gallons.

The amount recognized as revenue under this agreement in 2018 was \$381,273.

**NOTE T - EMERGENCY RADIO PROJECT**

During the year ended December 31, 2015, Montgomery County established the Emergency Radio Project (the "Project"). Under the terms of the Project, the County has entered into a bulk purchasing agreement with Motorola Solutions, Inc. with respect to emergency radio equipment and services. The County has, in turn, made available to municipalities within the County, the ability to purchase, from Motorola, emergency radio equipment at a discount and has further agreed to provide interest free loans to municipalities, from funds borrowed by the County from the Delaware Valley Regional Finance Authority ("DelVal"), that wish to participate in the Project. For the year ended December 31, 2015, the Borough elected to participate in the Project and entered into a Promissory Note with the County in the amount of \$589,413 to be repaid in five annual installments of \$117,882.76 each.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE T - EMERGENCY RADIO PROJECT (Continued)**

As of December 31, 2017, the purchased equipment was received by the Borough and, therefore, the asset and the related liability are reflected in these financial statements.

The Borough also entered into several loan agreements with surrounding fire companies and ambulance squads to supply the respective agencies with emergency radios. The total loans to agencies at inception were \$213,611. These loans are interest-free with a final maturity date of March 2020. The notes receivable balance as of December 31, 2018 was \$85,445 and is included under the caption of Accounts Receivable on the statement of net position.

**NOTE U - PRIOR PERIOD RESTATEMENT**

**Urban Transit Fund**

The financial statements as of June 30, 2017 have been restated to properly reflect the balance of federal operating grant receivables. It was determined that In June 2017 \$60,858 of federal receivables was incorrectly classified as being owed to the Borough of Pottstown Urban Operating Assistance Program. The Borough has adjusted beginning federal operating grant receivables as of June 30, 2017 by \$60,858 from \$420,035 to \$359,177 and beginning fund balance by \$60,858 from \$1,122,223 to \$1,061,365.

**GASB Statement No. 75**

The Borough implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefit (OPEB) plans. GASB Statement No. 75 states that the Borough must record any unfunded liability of their OPEB plans.

For the government-wide governmental activities, the Borough has treated the beginning of year net OPEB liability of \$28,573,447 as having been recognized in the period incurred. As part of the implementation, the previously recognized obligation for other postemployment benefits under GASB 45 in the amount of \$18,615,617 will be reversed. The Borough has adjusted beginning net position for the governmental activities from \$7,971,395 to (\$2,047,293).

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE U - PRIOR PERIOD RESTATEMENT (Continued)**

For the government-wide business-type activities and the proprietary funds, the Borough has treated the beginning of year net OPEB liability of \$210,385 as having been recognized in the period incurred. The Borough has adjusted beginning net position for the government-wide business-type activities and the proprietary funds from \$7,895,054 to \$7,684,669.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 9,349,983	\$ 9,349,983	\$ 9,526,195	\$ 176,212
Intergovernmental	970,213	970,213	1,010,984	40,771
Charges for services	2,426,714	2,426,714	2,025,826	(400,888)
Fees, licenses and permits	494,200	494,200	522,267	28,067
Court costs and fines	180,900	180,900	173,201	(7,699)
Interest and rents	13,601	13,601	52,201	38,600
Miscellaneous	36,806	36,806	171,237	134,431
TOTAL REVENUES	<u>13,472,417</u>	<u>13,472,417</u>	<u>13,481,911</u>	<u>9,494</u>
EXPENDITURES				
General government	4,253,429	4,250,277	2,967,710	1,282,567
Public safety, police department	7,367,119	7,367,119	8,061,943	(694,824)
Public works				
Zoning	527,744	528,244	506,321	21,923
Highways	727,157	727,657	229,319	498,338
Conservation and development	560,520	565,620	115,424	450,196
TOTAL EXPENDITURES	<u>13,435,969</u>	<u>13,438,917</u>	<u>11,880,717</u>	<u>1,558,200</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>36,448</u>	<u>33,500</u>	<u>1,601,194</u>	<u>1,567,694</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	1,000	1,000	380	(620)
Transfers in	-	-	-	-
Transfers out	(37,448)	(34,500)	(534,500)	(500,000)
Contribution from Pottstown Borough Authority	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(36,448)</u>	<u>(33,500)</u>	<u>(534,120)</u>	<u>(500,620)</u>
NET CHANGE IN FUND BALANCE	-	-	1,067,074	1,067,074
FUND BALANCE AT BEGINNING OF YEAR	<u>2,443,162</u>	<u>2,443,162</u>	<u>2,443,162</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,443,162</u>	<u>\$ 2,443,162</u>	<u>\$ 3,510,236</u>	<u>\$ 1,067,074</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**URBAN TRANSIT FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,003,530	\$ 2,003,530	\$ 2,003,530	\$ -
Charges for services	331,049	331,049	331,049	-
Miscellaneous	-	-	140	140
TOTAL REVENUES	<u>2,334,579</u>	<u>2,334,579</u>	<u>2,334,719</u>	<u>140</u>
EXPENDITURES				
Public works, other public works	<u>2,518,194</u>	<u>2,518,194</u>	<u>2,518,194</u>	<u>-</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(183,615)	(183,615)	(183,475)	140
FUND BALANCE AT BEGINNING OF YEAR, restated	<u>1,061,365</u>	<u>1,061,365</u>	<u>1,061,365</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 877,750</u>	<u>\$ 877,750</u>	<u>\$ 877,890</u>	<u>\$ 140</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**REFUSE FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 65,000	\$ 65,000	\$ 45,913	\$ (19,087)
Charges for services	2,454,475	2,444,575	2,514,311	69,736
Fees, licenses and permits	11,500	11,500	16,040	4,540
Interest and rents	8,000	23,000	30,964	7,964
Miscellaneous	10,503	17,501	17,570	69
TOTAL REVENUES	2,549,478	2,561,576	2,624,798	63,222
EXPENDITURES				
Public works, sanitation	2,939,363	2,957,035	2,434,408	522,627
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(389,885)	(395,459)	190,390	585,849
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	1	1	-	(1)
Refunds of expenses	-	3,002	-	(3,002)
Refunds of revenues	(100)	(100)	-	100
Transfer to budgetary reserve	407,656	392,556	-	(392,556)
Transfer from budgetary reserve	(17,672)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	389,885	395,459	-	(395,459)
NET CHANGE IN FUND BALANCE	-	-	190,390	190,390
FUND BALANCE AT BEGINNING OF YEAR	3,186,367	3,186,367	3,186,367	-
FUND BALANCE AT END OF YEAR	\$ 3,186,367	\$ 3,186,367	\$ 3,376,757	\$ 190,390

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**BOROUGH GRANT FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,598,165	\$ 2,598,165	\$ 1,072,243	\$ (1,525,922)
Interest and rents	1	1	-	(1)
Miscellaneous	1	1	-	(1)
TOTAL REVENUES	<u>2,598,167</u>	<u>2,598,167</u>	<u>1,072,243</u>	<u>(1,525,924)</u>
EXPENDITURES				
Public works, highways	150,000	150,000	26,263	123,737
Culture and recreation, recreation	393,168	393,168	154,578	238,590
Conservation and development	2,055,000	2,055,000	897,056	1,157,944
TOTAL EXPENDITURES	<u>2,598,168</u>	<u>2,598,168</u>	<u>1,077,897</u>	<u>1,520,271</u>
DEFICIENCY OF REVENUE OVER EXPENDITURES	(1)	(1)	(5,654)	(5,653)
OTHER FINANCING SOURCES				
Transfers in	<u>1</u>	<u>1</u>	<u>-</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	-	-	(5,654)	(5,654)
FUND DEFICIT AT BEGINNING OF YEAR	<u>(77,456)</u>	<u>(77,456)</u>	<u>(77,456)</u>	<u>-</u>
FUND DEFICIT AT END OF YEAR	<u>\$ (77,456)</u>	<u>\$ (77,456)</u>	<u>\$ (83,110)</u>	<u>\$ (5,654)</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL OPERATING FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest and rents	\$ 1	\$ 1	\$ -	\$ (1)
Miscellaneous	500	500	-	(500)
TOTAL REVENUES	501	501	-	(501)
EXCESS OF REVENUES OVER EXPENDITURES	501	501	-	(501)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	500,000	500,000
Transfer to budgetary reserve	(501)	(501)	-	501
TOTAL OTHER FINANCING SOURCES (USES)	(501)	(501)	500,000	500,501
NET CHANGE IN FUND BALANCE	-	-	500,000	500,000
FUND DEFICIT AT BEGINNING OF YEAR	(1,000,154)	(1,000,154)	(1,000,154)	-
FUND DEFICIT AT END OF YEAR	\$ (1,000,154)	\$ (1,000,154)	\$ (500,154)	\$ 500,000

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LIQUID FUELS FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 625,930	625,930	629,757	3,827
Interest and rents	2,568	2,568	13,325	10,757
Miscellaneous	2	2	-	(2)
TOTAL REVENUES	628,500	628,500	643,082	14,582
EXPENDITURES				
Public works, highways	628,500	628,500	958,208	(329,708)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(315,126)	(315,126)
FUND BALANCE AT BEGINNING OF YEAR	1,278,068	1,278,068	1,278,068	-
FUND BALANCE AT END OF YEAR	\$ 1,278,068	\$ 1,278,068	\$ 962,942	\$ (315,126)

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 42,393	\$ 42,393	\$ 41,634	\$ (759)
Charges for services	-	64,094	-	(64,094)
Interest and rents	350	350	1,543	1,193
Miscellaneous	200	300	-	(300)
TOTAL REVENUES	<u>42,943</u>	<u>107,137</u>	<u>43,177</u>	<u>(63,960)</u>
EXPENDITURES				
General government	1,137	1,037	1,432	(395)
Debt service	306,000	306,100	304,302	1,798
TOTAL EXPENDITURES	<u>307,137</u>	<u>307,137</u>	<u>305,734</u>	<u>1,403</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(264,194)</u>	<u>(200,000)</u>	<u>(262,557)</u>	<u>(62,557)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to budgetary reserve	64,194	-	-	-
Contribution from Pottstown Borough Authority	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>264,194</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	(62,557)	(62,557)
FUND BALANCE AT BEGINNING OF YEAR	<u>125,743</u>	<u>125,743</u>	<u>125,743</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 125,743</u>	<u>\$ 125,743</u>	<u>\$ 63,186</u>	<u>\$ (62,557)</u>

*See accompanying notes to the budgetary comparison schedules.*



**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULES**  
**YEAR ENDED DECEMBER 31, 2018**

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**NOTE A - BUDGETARY INFORMATION**

Commonwealth of Pennsylvania statutes require borough governments establish budgetary systems and adopt annual operating budgets. The Borough's annual budget includes the General Fund, certain Special Revenue Funds, the Debt Service Fund and Capital Projects Funds and is based on estimates of revenues and expenditures approved by Borough Council. The Borough adopts the budget on the same basis of accounting as reported in the fund financial statements. The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

**Borough Budget Process**

- Starting in September, the Borough holds public budget hearings for the purpose of receiving oral and written comments from the public in regards to the proposed budget for the following year.
- Public meetings are conducted on the proposed budget. The proposed budget is available for public inspection for 20 days prior to final adoption.
- After the 20-day inspection period but prior to December 31, Borough Council adopts the final budget by enacting an appropriate resolution.
- Formal budgetary process is employed as a planning device. The adopted budget is on the modified accrual basis. Budget amounts are as originally adopted or as amended by Borough Council.

**Level of Control**

- The Borough maintains budgetary controls at the fund level.

**Lapsing of Appropriations**

- Unexpended appropriations lapse at year-end.

**Management Amendment Authority**

During the course of the year, departmental needs may change, emergencies may occur, or additional revenue may arise. As a result, funds are transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by Borough Council.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
YEAR ENDED DECEMBER 31, 2018

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**NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended December 31, 2018, expenditures exceeded appropriations in the following:

	General Fund	Debt Service Fund	Liquid Fuels Fund
Public safety, Police department	\$ 694,824	\$ -	\$ -
Public works, Highways	-	-	329,708
General government	-	395	-
	<u>\$ 694,824</u>	<u>\$ 395</u>	<u>\$ 329,708</u>

These excess expenditures were funded by available fund balance.

**BOROUGH OF POTTSTOWN****SCHEDULE OF CHANGES IN THE NET POLICE PENSION  
PLAN LIABILITY AND RELATED RATIOS  
LAST FIVE YEARS**

	2018	2017
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 684,699	\$ 658,364
Interest	1,941,276	1,889,022
Changes for experience	-	911,428
Changes for assumptions	-	566,171
Benefit payments	<u>(1,402,051)</u>	<u>(1,287,009)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	1,223,924	2,737,976
Total pension liability, beginning	<u>28,503,837</u>	<u>25,765,861</u>
 TOTAL PENSION LIABILITY, ENDING (a)	 \$ <u>29,727,761</u>	 \$ <u>28,503,837</u>
 <b>PLAN FIDUCIARY NET POSITION</b>		
Contributions		
Employer	\$ 1,008,762	\$ 1,049,802
Member	205,243	230,779
Net investment income (loss)	(1,306,199)	2,363,069
Benefit payments, including refunds of member contributions	(1,402,051)	(1,287,009)
Administrative expenses	<u>(3,950)</u>	<u>(13,280)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(1,498,195)	2,343,361
Plan fiduciary net position, beginning	<u>22,759,835</u>	<u>20,416,474</u>
 PLAN FIDUCIARY NET POSITION, ENDING (b)	 \$ <u>21,261,640</u>	 \$ <u>22,759,835</u>
 NET PENSION LIABILITY, ENDING (a)-(b)	 \$ <u>8,466,121</u>	 \$ <u>5,744,002</u>
 <b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	 <u>71.52%</u>	 <u>79.85%</u>
 <b>COVERED PAYROLL</b>	 \$ <u>4,058,778</u>	 \$ <u>4,108,474</u>
 <b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL</b>	 <u>208.59%</u>	 <u>139.81%</u>

**NOTES TO THE SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

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<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 659,676	\$ 640,962	\$ 429,517
1,718,460	1,598,743	1,468,395
-	549,157	-
-	(823,998)	-
<u>(1,054,439)</u>	<u>(1,123,544)</u>	<u>(916,485)</u>
1,323,697	841,320	981,427
<u>24,442,164</u>	<u>23,600,844</u>	<u>22,619,417</u>
<u>\$ 25,765,861</u>	<u>\$ 24,442,164</u>	<u>\$ 23,600,844</u>
\$ 903,774	\$ 880,611	\$ 865,432
210,020	199,230	190,437
1,062,369	(919,895)	900,202
(1,054,439)	(1,123,544)	(916,485)
<u>(3,600)</u>	<u>(87,748)</u>	<u>-</u>
1,118,124	(1,051,346)	1,039,586
<u>19,298,350</u>	<u>20,349,696</u>	<u>19,310,110</u>
<u>\$ 20,416,474</u>	<u>\$ 19,298,350</u>	<u>\$ 20,349,696</u>
<u>\$ 5,349,387</u>	<u>\$ 5,143,814</u>	<u>\$ 3,251,148</u>
<u>79.24%</u>	<u>78.96%</u>	<u>86.22%</u>
<u>\$ 3,794,267</u>	<u>\$ 3,726,783</u>	<u>\$ 3,784,157</u>
<u>140.99%</u>	<u>138.02%</u>	<u>85.91%</u>

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF POLICE PENSION PLAN CONTRIBUTIONS**  
**LAST FIVE YEARS**

	<u>2018</u>	<u>2017</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 1,008,762	\$ 1,049,802
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>(1,008,762)</u>	<u>(1,049,802)</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>
COVERED PAYROLL	\$ <u>4,058,778</u>	\$ <u>4,108,474</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>24.85%</u>	<u>25.55%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2017

Actuarially determined contribution rates are calculated by January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Market value
Inflation	3.00%
Salary increases	4.00%
Investment rate of return	7.00%
Postretirement cost of living increase	2.00%
Retirement age	Normal retirement age
Mortality	IRS 2017 Static Table

**NOTES TO THE SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

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<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 903,774	\$ 880,611	\$ 865,432
<u>(903,774)</u>	<u>(880,611)</u>	<u>(865,432)</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
\$ <u>3,794,267</u>	\$ <u>3,726,783</u>	\$ <u>3,784,157</u>
<u>23.82%</u>	<u>23.63%</u>	<u>22.87%</u>

January 1, 2015

January 1, 2013

Entry age normal	Entry age normal
Level dollar, closed	Level dollar, closed
10 years	11 years
Market value	Market value
3.00%	3.00%
4.00%	3.50%
7.00%	6.50%
0.00%	0.00%
Normal retirement age	Normal retirement age
RP 2000 Table	UP1984 Table

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF POLICE PENSION PLAN**  
**INVESTMENT RETURNS**  
**LAST FIVE YEARS**

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-6.62%</u>	<u>11.54%</u>	<u>5.86%</u>	<u>-4.80%</u>	<u>5.90%</u>

**NOTES TO THE SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed.  
Additional information will be displayed as it becomes available.

# BOROUGH OF POTTSTOWN

## SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS LAST THREE YEARS

	2018	2017	2016
<b>TOTAL PENSION LIABILITY</b>			
Service cost	\$ 500,349	\$ 481,105	\$ 415,040
Interest	1,384,335	1,335,503	1,224,267
Changes for experience	-	288,649	-
Changes for assumptions	-	823,062	-
Benefit payments	(1,211,709)	(957,464)	(1,254,043)
NET CHANGE IN TOTAL PENSION LIABILITY	672,975	1,970,855	385,264
Total pension liability, beginning	21,402,973	19,432,118	19,046,854
TOTAL PENSION LIABILITY, ENDING (a)	\$ 22,075,948	\$ 21,402,973	\$ 19,432,118
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions			
Employer	\$ 326,988	\$ 343,074	\$ 295,227
Member	275,632	298,909	315,396
Net investment income	(1,085,041)	923,562	922,590
Benefit payments, including refunds of member contributions	(1,211,709)	(957,464)	(1,254,043)
Administrative expenses	(10,760)	(16,970)	(3,848)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(1,704,890)	591,111	275,322
Plan fiduciary net position, beginning	16,754,006	16,162,895	15,887,573
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 15,049,116	\$ 16,754,006	\$ 16,162,895
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 7,026,832	\$ 4,648,967	\$ 3,269,223
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	68.17%	78.28%	83.18%
<b>COVERED PAYROLL</b>	\$ 4,633,088	\$ 4,914,197	\$ 4,612,354
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL</b>	151.67%	94.60%	70.88%

### NOTES TO THE SCHEDULE

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.



**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
**CONTRIBUTIONS**  
**LAST THREE YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 326,952	\$ 343,074	\$ 295,227
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>326,988</u>	<u>(343,074)</u>	<u>(295,227)</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>(36)</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED PAYROLL	\$ <u>4,633,088</u>	\$ <u>4,914,197</u>	\$ <u>4,612,354</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>7.06%</u>	<u>6.98%</u>	<u>6.40%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2017 January 1, 2015

Actuarially determined contribution rates are calculated by January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	9 years	9 years
Asset valuation method		
Inflation	3.00%	3.00%
Salary increases	4.00%	4.00%
Investment rate of return	6.50%	6.50%
Retirement age	Normal retirement age	Normal retirement age
Mortality	RP2000 Table	RP2000 Table

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**BOROUGH OF POTTSTOWN****SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN****INVESTMENT RETURNS****LAST THREE YEARS**

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-6.90%</u>	<u>5.57%</u>	<u>5.92%</u>

**NOTES TO THE SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**BOROUGH OF POTTSTOWN****SCHEDULE OF THE COMPONENT UNIT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
LAST THREE YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPORTION OF THE NET PENSION LIABILITY	<u>32.26%</u>	<u>32.26%</u>	<u>32.26%</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	\$ <u>2,266,537</u>	\$ <u>1,499,546</u>	\$ <u>1,054,503</u>
COVERED PAYROLL	\$ <u>1,144,012</u>	\$ <u>1,585,097</u>	\$ <u>1,487,945</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED PAYROLL	<u>198.12%</u>	<u>94.60%</u>	<u>70.88%</u>
THE FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>68.17%</u>	<u>78.28%</u>	<u>83.18%</u>

**BOROUGH OF POTTSTOWN****SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT  
BENEFIT PLAN LIABILITY AND RELATED RATIOS  
LAST TWO FISCAL YEARS**

	2018	2017
<b>TOTAL OPEB LIABILITY</b>		
Service cost	\$ 1,424,532	\$ 1,364,951
Interest	1,107,333	1,037,956
Changes of benefit terms	71,815	-
Differences between expected and actual experience	(691,880)	-
Changes of assumptions	(3,071,918)	-
Benefit payments	(519,175)	(458,872)
NET CHANGE IN TOTAL OPEB LIABILITY	(1,679,293)	1,944,035
Total OPEB liability, beginning	30,315,031	28,370,996
<b>TOTAL OPEB LIABILITY, ENDING (a)</b>	<b>\$ 28,635,738</b>	<b>\$ 30,315,031</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions		
Employer	\$ 769,175	\$ 708,872
Member	76,788	75,304
DROP	-	-
Net investment income	(77,635)	123,929
Benefit payments	(519,175)	(458,872)
Administrative expense	(8,294)	(13,370)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	240,859	435,863
Plan fiduciary net position, beginning	1,531,199	1,095,337
<b>PLAN FIDUCIARY NET POSITION, ENDING (b)</b>	<b>\$ 1,772,058</b>	<b>\$ 1,531,200</b>
<b>NET OPEB LIABILITY, ENDING (a)-(b)</b>	<b>\$ 26,863,680</b>	<b>\$ 28,783,831</b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY</b>	<b>6.19%</b>	<b>5.05%</b>
<b>COVERED PAYROLL</b>	<b>\$ 9,316,614</b>	<b>\$ 8,952,740</b>
<b>NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL</b>	<b>288.34%</b>	<b>321.51%</b>

**NOTES TO SCHEDULE**

Benefit changes-A temporary health reimbursement account was established for certain qualified retirees in 2017.

Changes of assumptions-In 2018, the discount rate changed from 3.52% to 4.10%.

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**BOROUGH OF POTTSTOWN****SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT  
PLAN CONTRIBUTIONS  
LAST TWO FISCAL YEARS**

	<u>2018</u>	<u>2017</u>
STATUTORILY REQUIRED CONTRIBUTION	\$ 519,175	\$ 534,176
CONTRIBUTIONS IN RELATION TO THE STATUTORILY REQUIRED CONTRIBUTION	<u>519,175</u>	<u>534,176</u>
CONTRIBUTION DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>
COVERED PAYROLL	\$ <u>9,316,614</u>	\$ <u>8,952,740</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>5.57%</u>	<u>5.97%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2018 January 1, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	30 years	30 years
Asset valuation method	Market value	Market value
Inflation	5.25%	5.25%
Salary increases	4.0%	4.0%
Investment rate of return	3.52%	3.52%
Retirement age	Normal	Normal
Mortality	retirement age IRS 2017 Static Combined Table for Small Plans	retirement age IRS 2017 Static Combined Table for Small Plans

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**BOROUGH OF POTTSTOWN****SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT****PLAN INVESTMENT RETURNS****LAST TWO FISCAL YEARS**

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	<u>2018</u>	<u>2017</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-6.69%</u>	<u>14.72%</u>

**NOTES TO SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

## **SUPPLEMENTARY INFORMATION SECTION**

**BOROUGH OF POTTSTOWN**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	Special Revenue		
	Airport Fund	Street Lighting Fund	Recreation Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 240,832	\$ 181,657	\$ 142,668
Receivables			
Accounts	-	227	704
Taxes	-	9,605	25,822
Prepaid expenditures	16,454	-	28,180
<b>TOTAL ASSETS</b>	<b>\$ 257,286</b>	<b>\$ 191,489</b>	<b>\$ 197,374</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,388	\$ 20,663	\$ 5,170
Accrued liabilities	168	233	9,567
Due to other funds	-	-	-
Unearned revenue	10,709	-	-
<b>TOTAL LIABILITIES</b>	<b>12,265</b>	<b>20,896</b>	<b>14,737</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	-	9,532	25,626
<b>FUND BALANCES</b>			
Nonspendable, prepaid expenditures	16,454	-	28,180
Assigned to			
Airport improvement	228,567	-	-
Grants	-	-	128,831
Parking lot program purposes	-	-	-
Street lighting	-	161,061	-
Fire services	-	-	-
Library	-	-	-
Unassigned	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>245,021</b>	<b>161,061</b>	<b>157,011</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 257,286</b>	<b>\$ 191,489</b>	<b>\$ 197,374</b>



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Funds			
Fire Services Fund	Library Fund	Parking Lot Fund	Total Other Governmental Funds
\$ 660,890	\$ 22,589	\$ 118,029	\$ 1,366,665
3,308	156	-	4,395
46,457	6,555	-	88,439
11,027	14,965	-	70,626
<u>\$ 721,682</u>	<u>\$ 44,265</u>	<u>\$ 118,029</u>	<u>\$ 1,530,125</u>
\$ 2,981	\$ 28	\$ 5,163	\$ 35,393
187	11	872	11,038
-	-	-	-
-	-	7,390	18,099
<u>3,168</u>	<u>39</u>	<u>13,425</u>	<u>64,530</u>
<u>46,105</u>	<u>6,506</u>	<u>-</u>	<u>87,769</u>
11,027	14,965	-	70,626
-	-	-	228,567
-	-	-	128,831
-	-	104,604	104,604
-	-	-	161,061
661,382	-	-	661,382
-	22,755	-	22,755
-	-	-	-
<u>672,409</u>	<u>37,720</u>	<u>104,604</u>	<u>1,377,826</u>
<u>\$ 721,682</u>	<u>\$ 44,265</u>	<u>\$ 118,029</u>	<u>\$ 1,530,125</u>

**BOROUGH OF POTTSTOWN****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2018**

	Special Revenue		
	Airport Fund	Street Lighting Fund	Recreation Fund
REVENUES			
Taxes	\$ -	\$ 252,929	\$ 679,841
Intergovernmental	-	-	-
Charges for services	160,199	-	153,596
Interest and rents	2,377	4,899	34,857
Miscellaneous	-	-	1,596
TOTAL REVENUES	<u>162,576</u>	<u>257,828</u>	<u>869,890</u>
EXPENDITURES			
Public safety, fire department	-	-	-
Public works			
Highways	-	244,020	-
Other public works	99,362	-	-
Culture and recreation			
Recreation	-	-	864,616
Library	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>99,362</u>	<u>244,020</u>	<u>864,616</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	63,214	13,808	5,274
OTHER FINANCING SOURCES			
Transfers in	-	-	-
NET CHANGE IN FUND BALANCES	63,214	13,808	5,274
FUND BALANCES AT BEGINNING OF YEAR	<u>181,807</u>	<u>147,253</u>	<u>151,737</u>
FUND BALANCES AT END OF YEAR	<u>\$ 245,021</u>	<u>\$ 161,061</u>	<u>\$ 157,011</u>

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Funds			
Fire Services Fund	Library Fund	Parking Lot Fund	Total Other Governmental Funds
\$ 1,223,905	\$ 172,954	\$ -	\$ 2,329,629
98,765	-	-	98,765
119,344	-	41,658	474,797
8,843	587	1,132	52,695
75,482	680	-	77,758
<u>1,526,339</u>	<u>174,221</u>	<u>42,790</u>	<u>3,033,644</u>
1,412,480	-	-	1,412,480
-	-	68,709	312,729
-	-	-	99,362
-	-	-	864,616
-	177,572	-	177,572
84,633	-	-	84,633
20,198	-	-	20,198
<u>1,517,311</u>	<u>177,572</u>	<u>68,709</u>	<u>2,971,590</u>
9,028	(3,351)	(25,919)	62,054
-	-	34,500	34,500
9,028	(3,351)	8,581	96,554
<u>663,381</u>	<u>41,071</u>	<u>96,023</u>	<u>1,281,272</u>
<u>\$ 672,409</u>	<u>\$ 37,720</u>	<u>\$ 104,604</u>	<u>\$ 1,377,826</u>

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF WASTEWATER SYSTEM**  
**FINAL RECONCILIATION**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Basis of Allocation</u>	<u>Annual Cost 1/1/2018 - 12/31/2018</u>	<u>Less: Lower Pottsgrove</u>
1 Annual System Costs			
2 Wastewater Treatment	A/B	\$ 4,070,300	\$ 1,326,511 (1), (2), (3)
3 Administration			
Legislative Body	A/B	8,989	3,004
Executive	A/B	66,478	22,215
Auditing Services/Accounting	A/B	214,534	36,898 (4)
Legal	A/B	23,571	3,207 (7)
Human Resources	A/B	64,937	21,700
IT-Web Network Services	A/B	98,538	24,933 (5)
Engineering	A/B	41,782	6,704 (8)
General Gov. Bldg. and Plant	A/B	52,102	4,304
Public Works	A/B	53,050	9,157 (9)
Miscellaneous	A/B	(3)	(1)
Pension Expense	A/B	61,761	20,638
Insurance	A/B	64,691	21,618
Employee Benefits	A/B	569,094	166,289
		<u>1,319,524</u>	<u>340,666</u>
4 Sewer Lines		-	-
5 Porter Road Pump Station	C	19,548	1,424
6 Electric-Pump Stations	B	32,492	-
7 Maint. and Repairs Sewer Lines	B	98,820	- (10)
8 Maint. Of Meters	B	52	-
9 Elec. Flow Meter	B	636	212
10 Total System Costs		<u>5,541,372</u>	<u>1,668,813</u>
11 Deductions-Revenue			
12 Cell Tower Rent	A/B	23,946	8,002
13 PEMA	A/B	-	-
14 MIPP	A/B	7,344	2,454
15 Violations, Inspections, Permits	A/B	3,130	1,046
16 Sewer Bulk Collection	A/B	3,188,289	1,065,417
17 Waste Mgmt.-Leachate	A/B	120,842	40,381
18 Wage Allocation-06	A/B	79,824	26,675
19 Energy Capacity Payments	A/B	-	-
20 Scrap Sales	A/B	6,570	2,195
21 Total Deductions-Revenue		<u>3,429,945</u>	<u>1,146,170</u>
22 Net System Costs		<u>\$ 2,111,427</u>	<u>522,643</u>
Final Allocation %		100%	24.75%
2018 Estimated Payments			<u>504,608</u>
Due to (from) Borough			<u>\$ 18,035</u>

**FOOTNOTES**

- A Metered Flow-Adjusted For Non Metered And Bulk
- B Flows-Pottstown, Upper And West Pottsgroves
- C Porter Road Pump Station-North End EDU's
- (1) Excludes cost associated with the WWTP pumping station - LPT = \$26,022 & WPT = \$26,128
- (2) Excludes cost associated with the Memorial Park pumping station - LPT & UPT = \$34,870
- (3) 100% of cost associated with the Circle of Progress pumping station allocated to PT = \$2,996
- (4) Excludes \$104,114 related to billing and collections.
- (5) Excludes \$23,925 of Dallas Data billing charges.
- (6) Excludes \$6,157 of Portnoff Law Associates collection fees.
- (7) Excludes \$13,975 of legal expenses which were specific to the PBA
- (8) Excludes \$21,720 of engineering charges which were specific to Borough
- (9) Excludes \$25,646 related to labor specific to Pottstown sewer lines.
- (10) Excludes \$98,820 for televising Borough sewer lines and other repairs
- (11) West Pottsgrove should be excluded from Porter Road Pump House items

<u>Net Cost</u>	<u>Upper Pottsgrove</u>	<u>West Pottsgrove</u>	<u>Pottstown</u>
\$ 2,743,789 (1)	\$ 202,816 (2)	\$ 423,543 (1)	\$ 2,109,927
5,985	456	956	4,573
44,263	3,375	7,071	33,818
177,636	13,074 (6)	27,392 (6)	138,018
20,364	487 (7)	1,021 (7)	18,857
43,237	3,297	6,907	33,034
73,605	5,612	11,758	56,236
35,078	1,530	3,205	30,344
47,798	3,644	7,635	36,518
43,893	1,391 (9)	2,915 (9)	39,587
(2)	-	-	(1)
41,123	3,135	6,569	31,419
43,073	3,284	6,880	32,909
402,805	25,262 (8)	52,927 (8)	323,631
<u>978,858</u>	<u>64,547</u>	<u>135,236</u>	<u>778,943</u>
-	-	-	-
18,124	2,464	- (11)	15,660
32,492	-	14,692	17,800
98,820	- (10)	- (10)	98,820
52	4	8	40
424	32	67	323
<u>3,872,559 (1)</u>	<u>269,863</u>	<u>573,546</u>	<u>3,021,513</u>
15,944	1,216	2,547	12,181
-	-	-	-
4,890	373	781	3,736
2,084	159	333	1,592
2,122,872	161,852	339,106	1,621,914
80,461	6,134	12,853	61,473
53,149	4,052	8,490	40,607
-	-	-	-
4,375	334	699	3,342
<u>2,283,775</u>	<u>174,120</u>	<u>364,809</u>	<u>1,744,845</u>
\$ <u>1,588,784 (1)</u>	<u>95,743</u>	<u>208,737</u>	\$ <u>1,276,668</u>
	4.53%	9.89%	60.46%
	<u>122,232</u>	<u>249,580</u>	
	\$ <u>(26,489)</u>	\$ <u>(40,843)</u>	

***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 Pottstown  
Pottstown, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Borough of Pottstown as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough of Pottstown's basic financial statements, and have issued our report thereon dated June 4, 2019.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Borough of Pottstown's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maille LLP*

Oaks, Pennsylvania  
June 4, 2019

***Independent Auditors' Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance in Accordance With the Uniform Guidance***

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

***Report on Compliance for Each Major Federal Program***

We have audited the Borough of Pottstown's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Borough of Pottstown's major federal programs for the year ended December 31, 2018. The Borough of Pottstown's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Borough of Pottstown's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough of Pottstown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Borough of Pottstown's compliance.



To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***Opinion on Each Major Federal Program***

In our opinion, the Borough of Pottstown complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The Borough of Pottstown's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Borough of Pottstown's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Management of the Borough of Pottstown is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough of Pottstown's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough of Pottstown's internal control over compliance.

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

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

The Borough of Pottstown's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Borough of Pottstown's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Maille LLP*

Oaks, Pennsylvania  
June 4, 2019

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL  
AWARD PROGRAMS AUDIT**

**BOROUGH OF POTTSTOWN****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****YEAR ENDED DECEMBER 31, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Award Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
<b>Federal Transit Formula Grants</b>	20.507 *	n/a	\$ 646,415	\$ -
<b>Passed through the Commonwealth of Pennsylvania</b>				
Airport Improvement Program	20.106	ABG-2015 Boro of Pottstown-00029	8,208	-
Airport Improvement Program	20.106	ABG-2016 Boro of Pottstown-00016	16,125	-
Total CFDA 20.106			<u>24,333</u>	<u>-</u>
Highway Planning and Construction	20.205 *	n/a	26,263	-
Highway Planning and Construction	20.205 *	641061 (Phase 3)	848,331	-
Total Highway Planning & Construction Cluster (Total CFDA 20.205)			<u>874,594</u>	<u>-</u>
Alcohol Impaired Driving Countermeasures Grants	20.616	n/a	<u>48,268</u>	<u>-</u>
Total Highway Safety Cluster - CFDA 20.616			<u>48,268</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION FORWARD			<u>1,593,610</u>	<u>-</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
<b>Bulletproof Vest Partnership Program</b>	16.607	n/a	5,043	-
<b>Passed through the Municipality of Norristown</b>				
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0884	<u>12,949</u>	<u>-</u>
Total CFDA 16.738			<u>12,949</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF JUSTICE FORWARD			\$ <u>17,992</u>	\$ <u>-</u>

**BOROUGH OF POTTSTOWN****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****YEAR ENDED DECEMBER 31, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Award Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
TOTAL U.S. DEPARTMENT OF TRANSPORTATION FORWARDED			\$ 1,593,610	\$ -
<b>U.S. DEPARTMENT OF JUSTICE</b>				
TOTAL U.S. DEPARTMENT OF JUSTICE FORWARDED			<u>17,992</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,611,602</u>	<u>\$ -</u>

\*Tested as a major program

*See accompanying notes to the schedule of expenditures of federal awards.*

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2018**

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**NOTE A - GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Borough of Pottstown. The Borough reporting entity is defined in Note A to the Borough's basic financial statements. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies, is included on the schedule.

**NOTE B - BASIS OF PRESENTATION**

The accompanying schedules of expenditure of federal awards (the "Schedule") includes the federal award activity of the Borough of Pottstown under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the Borough of Pottstown, it is not intended to and does not present the financial position, changes in net position or cash flows of the Borough of Pottstown.

**NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB A-87 or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Borough of Pottstown has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE D - RISK-BASED AUDIT APPROACH**

The 2018 threshold for determining Type A and Type B Programs is \$750,000.

The programs tested as major programs include:

<u>CFDA</u>	<u>Program</u>
20.507	Federal Transit Grants
20.205	Highway Planning and Construction

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

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**A. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified? **No**

Significant deficiencies identified not considered to be material weaknesses? **No**

Noncompliance material to financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? **No**

Significant deficiencies identified not considered to be material weaknesses? **Yes**

Noncompliance material to financial statements noted? **No**

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516(a) **Yes**

Identification of major programs:

<u>CFDA</u>	<u>Program</u>
20.507	Federal Transit Grants
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? **No**

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

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**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**2018-001 Federal Transit Grants – Special Tests and Provisions**  
**Federal CFDA #20.507**

**Federal Agency:** U.S. Department of Transportation

**Condition:** The Borough did not report charter services to the federal transit administration within the required timeframe during the year ended December 31, 2018.

**Criteria:** Federal regulations dictate that the Borough is responsible for reporting charter services that were provided via the FTA charter registration website. The reports are due 30 days after the end of each calendar quarter.

**Effect:** The Borough is not in compliance with its duties regarding the charter service reporting under the special tests and provisions requirement of the grant.

**Cause:** The Borough failed to timely report the charter services it provided during the year ended December 31, 2018.

**Recommendation:** The Borough should implement procedures to ensure that adequate activities are performed to ensure compliance with the special tests and provisions requirements for grants.

**Management's Response:**



**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2018**

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**2017-001      Federal Transit Grants - Special Tests and Provisions**

**Federal Program:** Federal Transit Grants - CFDA #20.507

**Federal Agency:** U.S. Department of Transportation

**Description of Finding:** During 2017, the Borough failed to report charter services provided to the federal transit administration.

**Current Status:** The finding is still applicable. See the schedule of findings and questioned costs item 2018-001.



# Borough of Pottstown

Borough Hall, 100 East High Street  
Pottstown, Pennsylvania 19464-9525  
(610) 970-6500

## CORRECTIVE ACTION PLAN

May 20, 2019

Federal Audit Clearing House  
1201 E. 10<sup>th</sup> Street  
Jeffersonville, IN 47132

RE: Single Audit Period End 12-31-18 for EIN 23-6002927

Dear Controller,

Following is the Corrective Action Plan that the Borough of Pottstown is anticipating in response to the findings for the year end 12-31-18 by the auditing firm of Maillie, LLP, PO Box 680, Oaks PA 19456.

**Finding 2018-001 Special Tests and Provisions – Federal Transit Formula Grants CFDA #20-507**

- A. The duties for this reporting has been assigned to two employees, in the event that one is out of the office, the second one will be aware of the requirement for filing the charter revenues in the future.
- B. Responsible Person: Kourtney High, Grants Administrator
- C. Effective Date: All of the 2018 reporting will be completed as of 07-31-19

If you have any further questions, please feel free to contact me at the Borough Hall Building Monday through Friday, 7:30 a.m. to 4:00 p.m., at 610-970-6534.

Sincerely,

BOROUGH OF POTTSTOWN

Janice E. Lee  
Finance Director