

**BOROUGH OF POTTSTOWN**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

*Year Ended December 31, 2020*

## **INTRODUCTORY SECTION**

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**YEAR ENDED DECEMBER 31, 2020**

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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, 2020, 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, 2020, 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).

## ***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 81 through 85, pension plan information on pages 88 through 94 and postemployment benefits other than pension plans information on pages 95 through 97 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 September 27, 2021, 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.



Limerick, Pennsylvania  
September 27, 2021

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2020

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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, 2020. 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, 2020.

**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, 2020**

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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, 2020

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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, 2020

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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 Custodial 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 \$49.0 million for 2020, which represents an increase of \$1.3 million or 2.7% from 2019. Governmental capital assets, net, increased by \$1.3 million, and other assets increased by \$.03 million. Capital additions for 2020 totaled \$3.5 million and included expenditures to purchase four police vehicles (of which funds were contributed by an outside third party), the last of the annual County radio payment, five buses, a tractor and expenditures for major grant-supported projects. This increase was offset by the \$1.1 million increase in accumulated depreciation resulting from 2020 depreciation expense. Other Assets of the business-type activities increased by \$0.03 million or 4.7% in 2020. Cash and cash equivalents increased by \$3.03 million; and accounts receivable and due from other governments decreased by \$0.3 million.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2020**

Total liabilities were \$35.9 million and decreased by \$7.9 million or 18% in 2020. Short-term liabilities decreased by \$.3 million due to a re-classification of account types from 2019 to 2020. Long-term liabilities decreased by \$7.6 million, as a result of lower pension and OPEB liability.

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 2020 financial statements.

**Condensed Statements of Net Position**

	Governmental Activities		Business- Type Activities		Totals		Variance
	2020	2019	2020	2019	2020	2019	
<b>ASSETS</b>							
Capital assets	\$ 28,140,810	\$ 26,813,551	\$ 685,775	\$ 654,646	\$ 28,826,585	\$ 27,468,197	\$ 1,358,388
Other assets	12,391,026	12,304,961	7,789,377	7,895,629	20,180,403	20,200,590	(20,187)
<b>TOTAL ASSETS</b>	<b>40,531,836</b>	<b>39,118,512</b>	<b>8,475,152</b>	<b>8,550,275</b>	<b>49,006,988</b>	<b>47,668,787</b>	<b>1,338,201</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Pension activity	1,380,873	1,803,025	80,597	120,896	1,461,470	1,923,921	(462,451)
OPEB activity	3,523,396	2,039,560	25,216	13,200	3,548,612	2,052,760	1,495,852
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>4,904,269</b>	<b>3,842,585</b>	<b>105,813</b>	<b>134,096</b>	<b>5,010,082</b>	<b>3,976,681</b>	<b>1,033,401</b>
<b>LIABILITIES</b>							
Other liabilities	864,837	1,160,799	916,256	912,490	1,781,093	2,073,289	(292,196)
Net pension liability	3,474,605	7,674,187	300,492	883,840	3,775,097	8,558,027	(4,782,930)
Net opeb liability	27,281,726	30,205,438	195,246	195,485	27,476,972	30,400,923	(2,923,951)
Long-term liabilities	2,769,181	2,746,929	120,675	88,070	2,889,856	2,834,999	54,857
<b>TOTAL LIABILITIES</b>	<b>34,390,349</b>	<b>41,787,353</b>	<b>1,532,669</b>	<b>2,079,885</b>	<b>35,923,018</b>	<b>43,867,238</b>	<b>(7,944,220)</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Pension activity	3,878,972	1,506,417	478,879	173,251	4,357,851	1,679,668	2,678,183
OPEB activity	8,448,840	3,056,281	60,466	19,779	8,509,306	3,076,060	5,433,246
<b>TOTAL DEFERRED INFLOWS</b>	<b>12,327,812</b>	<b>4,562,698</b>	<b>539,345</b>	<b>193,030</b>	<b>12,867,157</b>	<b>4,755,728</b>	<b>8,111,429</b>
<b>NET POSITION</b>							
Net investment in capital assets	25,830,185	24,080,408	685,775	654,646	26,515,960	24,735,054	1,780,906
Restricted	1,869,995	1,633,896	-	-	1,869,995	1,633,896	236,099
Unrestricted	(28,982,236)	(29,103,258)	5,823,176	5,756,810	(23,159,060)	(23,346,448)	187,388
<b>TOTAL NET POSITION</b>	<b>\$ (1,282,056)</b>	<b>\$ (3,388,954)</b>	<b>\$ 6,508,951</b>	<b>\$ 6,411,456</b>	<b>\$ 5,226,895</b>	<b>\$ 3,022,502</b>	<b>\$ 2,204,393</b>

**Changes in Net Position**

The statement of activities represents changes in net position for the year ended December 31, 2020. 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, 2020**

**Condensed Statements of Activities**

	Governmental Activities		Business-Type Activities		Totals		Variance
	2020	2019	2020	2019	2020	2019	
<b>REVENUES</b>							
Program revenues							
Charges for services	\$ 4,974,102	\$ 5,634,634	\$ 9,484,313	\$ 10,250,004	\$ 14,458,415	\$ 15,884,638	\$ (1,426,223)
Operating grants and contributions	4,282,597	5,571,876	-	-	4,282,597	5,571,876	(1,289,279)
Capital grants and contributions	2,091,105	282,202	-	-	2,091,105	282,202	1,808,903
General revenues							
Real estate taxes	9,866,784	9,357,338	-	-	9,866,784	9,357,338	509,446
Earned income taxes	2,414,776	2,462,920	-	-	2,414,776	2,462,920	(48,144)
Other taxes	890,074	900,092	-	-	890,074	900,092	(10,018)
Unrestricted licenses and fees	497,837	538,325	-	-	497,837	538,325	(40,488)
Gain on sale of capital assets	43,568	-	-	-	43,568	-	43,568
Unrestricted investment earnings	49,692	215,682	36,627	102,709	86,319	318,391	(232,072)
Royalties and rental income	17,947	27,647	-	-	17,947	27,647	(9,700)
Realized and unrealized gain (loss) on investments	-	7,420	3,906	49,418	3,906	56,838	(52,932)
Reimbursement from Pottstown Borough Authority	200,000	200,000	-	-	200,000	200,000	-
Miscellaneous	160,666	198,755	94,116	141,996	254,782	340,751	(85,969)
<b>TOTAL REVENUES</b>	<b>25,489,148</b>	<b>25,396,891</b>	<b>9,618,962</b>	<b>10,544,127</b>	<b>35,108,110</b>	<b>35,941,018</b>	<b>(832,908)</b>
<b>EXPENSES</b>							
General government	1,476,676	1,892,481	-	-	1,476,676	1,892,481	(415,805)
Public safety	11,404,141	12,837,000	-	-	11,404,141	12,837,000	(1,432,859)
Public works	8,531,575	8,135,393	-	-	8,531,575	8,135,393	396,182
Culture and recreation	1,199,713	2,196,900	-	-	1,199,713	2,196,900	(997,187)
Conservation and development	709,468	851,309	-	-	709,468	851,309	(141,841)
Debt service	60,677	71,909	-	-	60,677	71,909	(11,232)
Contribution to Pottstown Borough Authority	-	-	650,000	1,050,000	650,000	1,050,000	(400,000)
Sewer services	-	-	8,871,467	8,780,525	8,871,467	8,780,525	90,942
<b>TOTAL EXPENSES</b>	<b>23,382,250</b>	<b>25,984,992</b>	<b>9,521,467</b>	<b>9,830,525</b>	<b>32,903,717</b>	<b>35,815,517</b>	<b>(2,911,800)</b>
<b>TRANSFERS</b>							
	-	-	-	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>2,106,898</b>	<b>(588,101)</b>	<b>97,495</b>	<b>713,602</b>	<b>2,204,393</b>	<b>125,501</b>	<b>2,078,892</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>(3,388,954)</b>	<b>(2,800,853)</b>	<b>6,411,456</b>	<b>5,697,854</b>	<b>3,022,502</b>	<b>2,897,001</b>	<b>125,501</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ (1,282,056)</b>	<b>\$ (3,388,954)</b>	<b>\$ 6,508,951</b>	<b>\$ 6,411,456</b>	<b>\$ 5,226,895</b>	<b>\$ 3,022,502</b>	<b>\$ 2,204,393</b>

Total net position for 2020 increased by \$2.2 million. Total expenses were \$32.9 million and decreased by \$2.9 million, or .08%, in 2020. Sewer services increased by \$0.1 million and Public Safety and Public Works decreased a total of \$1.1 million. The decrease in Public Safety was due to the recording of health benefits and pension liabilities per the GASB standard of reporting in 2020. Borough Authority and Sewer Service decreased expense for the year 2020 by approximately \$.4 million. Total revenues for 2020 were \$35.1 million and decreased by \$.8 million or 2.2% from 2019. Capital grants and contributions increased \$1.8 million. Charges for Services decreased \$0.8 million. Business-type activity revenues were slightly lower due to lower bulk sewer revenues received from outside sludge haulers.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2020

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**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 2020, general real estate tax revenue was \$9.8 million, which increased \$0.5 million, from 2019, as a result of the increase in the tax millage. The net program expenses for the year ended December 31, 2020, 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 Borough's assessed valuation of real property was \$762 million for 2020 and was \$2 million lower than 2019.

In December 2019, Borough Council again approved an increase of .486 mills, going from 12.675 to 13.161 for all funds for 2020. The Borough's tax rate is well below the Commonwealth-set cap for operating costs. 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, 2020**

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

<u>Program</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government	\$ 1,476,676	\$ (774,858)
Public safety	11,404,141	(10,024,446)
Public works	8,531,575	(58,016)
Culture and recreation	1,199,713	(1,153,217)
Conservation and development	709,468	36,768
Sewer services	<u>8,871,467</u>	<u>612,846</u>
	<u>\$ 32,193,040</u>	<u>\$ (11,360,923)</u>

Total Net Cost of Services is \$.9 million higher when compared to the prior year primarily due to higher cost of sewer services.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Borough's capital assets at December 31, 2020, net of accumulated depreciation, were \$28.8 million. Capital assets consist primarily of land, buildings, equipment and infrastructure. The table below is a summary of capital assets at December 31, 2020, and compares 2019 with 2020.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>		<u>Variance</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	
<b>CAPITAL ASSETS</b>							
Land	\$ 2,648,352	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352	\$ 2,648,352	\$ -
Construction in progress	-	2,139,621	-	-	-	2,139,621	(2,139,621)
Land improvements	12,491,594	10,522,901	-	-	12,491,594	10,522,901	1,968,693
Buildings and improvements	14,014,535	13,715,651	-	-	14,014,535	13,715,651	298,884
Machinery and equipment	13,863,165	11,584,981	585,496	496,616	14,448,661	12,081,597	2,367,064
Infrastructure	7,219,031	7,189,506	5,781,755	5,781,755	13,000,786	12,971,261	29,525
Accumulated depreciation	<u>(22,095,867)</u>	<u>(20,987,461)</u>	<u>(5,681,476)</u>	<u>(5,623,725)</u>	<u>(27,777,343)</u>	<u>(26,611,186)</u>	<u>(1,166,157)</u>
CAPITAL ASSETS, net	<u>\$ 28,140,810</u>	<u>\$ 26,813,551</u>	<u>\$ 685,775</u>	<u>\$ 654,646</u>	<u>\$ 28,826,585</u>	<u>\$ 27,468,197</u>	<u>\$ 1,358,388</u>

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

Construction in progress decreased by \$2.1 million due to the completion of work on several grant projects, including the Bike/Ped Pottstown, Airport Runway Rehab and Ricketts Center Roof.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2020**

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Government machinery and equipment increased by \$2.2 million due to the purchase of four new police vehicles and five new buses.

Infrastructure assets increased by \$.03 million due to the ADA Walk Path at Potts Park and new boiler and controls for HVAC at Borough Hall.

Accumulated depreciation increased by \$1.2 million due to the recording of 2020 depreciation.

**Debt Administration**

Total long-term liabilities were \$.6 million at December 31, 2020. General Obligation Notes decreased by \$.3 million due to the principal payment. Capital lease payable decreased by \$0.08 million reflecting the payment of principal in 2020. The pension plan liabilities decreased by \$4 million in general government and by \$.6 million in business type activities whereas the other post-employment benefit plan liabilities decreased by \$2.9 million in general government.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Bonds and notes	\$ 2,204,872	\$ -	\$ (332,738)	\$ 1,872,134
Capital lease payable	528,271	-	(89,780)	438,491
OPEB liability	30,205,438	-	(2,923,712)	27,281,726
Compensated absences	453,438	22,252	-	475,690
Pension liability	<u>7,674,187</u>	<u>-</u>	<u>(4,199,582)</u>	<u>3,474,605</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>41,066,206</u></b>	<b>\$ <u>22,252</u></b>	<b>\$ <u>(7,545,812)</u></b>	<b>\$ <u>33,542,646</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Compensated absences	\$ 88,070	\$ 32,605	\$ -	\$ 120,675
OPEB liability	195,485	-	(239)	195,246
Pension liability	<u>883,840</u>	<u>-</u>	<u>(583,348)</u>	<u>300,492</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ <u>1,167,395</u></b>	<b>\$ <u>32,605</u></b>	<b>\$ <u>(583,587)</u></b>	<b>\$ <u>616,413</u></b>

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, 2020**

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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, 2020 and 2019, were as follows:

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

	<u>2020</u>	<u>2019</u>	<u>Variation</u>
REVENUES			
Taxes	\$ 13,215,358	\$ 12,675,584	\$ 539,774
Intergovernmental	6,375,707	5,755,695	620,012
Charges for services	4,836,071	5,475,781	(639,710)
Fees, licenses and permits	494,417	512,918	(18,501)
Court costs and fines	128,990	170,458	(41,468)
Interest and rents	64,767	235,113	(170,346)
Miscellaneous	<u>230,245</u>	<u>369,892</u>	<u>(139,647)</u>
TOTAL REVENUES	<u>\$ 25,345,555</u>	<u>\$ 25,195,441</u>	<u>\$ 150,114</u>

Governmental Funds revenues totaled \$25.3 million for the year ended December 31, 2020, which was almost \$.2 million higher than 2019. Taxes increased by \$.5 million due to the millage increase from 12.675 to 13.161. Intergovernmental revenues increase \$.6 million due to grant money for the Airport Apron/taxiway project. There was a decrease of \$.6 million in charges for services and court costs and fines, which was offset by a slight decrease in building permits issued in 2020.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2020**

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**Governmental Funds Expenditures**

Governmental Funds expenditures by source at December 31, 2020 and 2019, were as follows:

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

	<u>2020</u>	<u>2019</u>	<u>Variation</u>
EXPENDITURES			
General government	\$ 1,546,244	\$ 1,349,655	\$ 196,589
Public safety	11,723,413	11,293,520	429,893
Public works	10,120,279	7,569,225	2,551,054
Culture and recreation	1,169,334	2,085,584	(916,250)
Capital projects	5,451	-	5,451
Conservation and development	619,628	1,103,313	(483,685)
Debt service	<u>366,680</u>	<u>410,110</u>	<u>(43,430)</u>
TOTAL EXPENDITURES	<u>\$ 25,551,029</u>	<u>\$ 23,811,407</u>	<u>\$ 1,739,622</u>

Governmental Funds expenditures totaled \$25.5 million for the year ended December 31, 2020, which was \$1.7 million more than the \$23.8 million for 2019. Even though culture and recreation and conservation and development fewer projects than in 2019, general government, public safety and public works all exceeded the previous year's expenses.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2020**

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**Governmental Fund Balances**

The ending balances for Governmental Funds and net position for Proprietary Funds at December 31, 2020, 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	\$ 4,717,275	\$ -
Urban Transit Fund	112,186	-
Refuse Fund	3,117,943	-
Borough Grant Fund	(53,578)	-
Liquid Fuels Fund	1,258,547	-
Other Governmental Funds	2,069,633	-
Sewer Fund	-	6,025,036
Sewer Collection Lines Fund	-	483,915
	<u>\$ 11,222,006</u>	<u>\$ 6,508,951</u>

The Borough's Governmental Funds reported a combined fund balance of \$11.2 million at December 31, 2020. Governmental Funds had an unassigned fund balance of \$4.9 million and \$0.3 million in non-spendable prepaid expenditures. The remaining \$6 million is either restricted or assigned 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, 2020, the total General Fund balance was \$4.7 million. The fund balance at the end of 2019 was \$4.3 million, representing a 10% 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, 2020

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

**Economic Conditions**

The Borough's assessed values decreased by \$2 million in 2020. Although this represents a continuation of a long-term trend, the rate at which assessments fell in 2020 are well below those of previous years. The primary reason for the continued decrease in assessed values is due to the 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 grants from Montgomery County, DCED, DEP, EPA and others to provide resources to residents, business and organizations to help bolster economic development. The Borough, through its economic development partners has funneled these grant dollars to key anchor projects. In 2020, the Borough worked with the Pottstown Area Industrial Development Corporation (PAID) to secure \$2.5 million in State funding with \$1 million each going to the construction of the Pottstown Sustainable Energy Plant, and conversion of the former Mercury Newspaper building into a boutique hotel restaurant/lounge. The Pottstown Sustainable Energy Plant won zoning approval in 2020 and is on track to bring 80 high paying jobs to the Borough by mid-2022. Borough Management was successful in obtaining a commitment from this developer to fund \$600,000 towards the Keystone Boulevard roadway extension which will spur additional development on over 100 acres of undeveloped land along the waterfront. PAID was also successful in obtaining \$500,000 to assist with renovating the lower floors of 159 High Street into a life sciences incubator hub to build on funding secured in previous years. The Borough was also awarded \$900,000 in state grants to address its aging underground storm water arches.

Despite the pandemic, commercial investment activity remained resilient in Pottstown with 12 new businesses opening in the past year. Regional and macro-economic trends have also greatly benefited the Borough across its industrial, educational and residential sectors in 2020. Due to the imposition of steel tariffs by the federal government, American Keg, which is the only manufacturer of steel kegs in the United States, completed a sale of a portion of the company to Blefa Kegs, Inc., a subsidiary of a German company. The deal resulted in a \$7 million investment in American Keg's Pottstown location to modernize the plant's equipment and double their current output resulting in 25 additional jobs. Montgomery County Community College's West Campus was also successful in securing a \$6 million bond to renovate its facilities and expand higher education opportunities in Pottstown. Finally, the residential sector saw a robust 12.2% increase real estate property values and a surge in residential renovation activities.

The result of these factors are beginning to positively impact property values and the finances of the Borough, however these investments have not yet outpaced the revenue loss from reassessments. In 2020, the Borough experienced considerable impact from the pandemic as revenues from building permits decreased significantly due to economic uncertainty and a general increase in cost of building materials nationwide. Positively impacting 2020 revenues were a 5.4% gain in real estate taxes, however that was offset by a 9% decrease in charge for services.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2020

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**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.

**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 expires on December 31, 2021, and a new contract was signed in 2019. The PPOA is due to expire on December 31, 2024.

**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, 2020**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents				
Unrestricted	\$ 10,332,896	\$ 5,423,046	\$ 15,755,942	\$ 1,110,863
Restricted	2,867	-	2,867	7,792,850
Investments				
Restricted	-	-	-	2,254,921
Accounts receivable, net	1,012,785	1,978,527	2,991,312	1,386,186
Taxes receivable	392,263	-	392,263	-
Due from other governments	319,544	313,466	633,010	-
Prepaid expenses	330,671	74,338	405,009	200,016
Capital assets not being depreciated	2,648,352	-	2,648,352	5,990,035
Capital assets being depreciated, net	25,492,458	685,775	26,178,233	52,591,685
<b>TOTAL ASSETS</b>	<b>40,531,836</b>	<b>8,475,152</b>	<b>49,006,988</b>	<b>71,326,556</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding, net of accumulated amortization	-	-	-	407,974
Deferred outflows of resources, pension activity	1,380,873	80,597	1,461,470	119,529
Deferred outflows of resources, OPEB activity	3,523,396	25,216	3,548,612	-
<b>TOTAL OUTFLOWS OF RESOURCES</b>	<b>4,904,269</b>	<b>105,813</b>	<b>5,010,082</b>	<b>527,503</b>
<b>LIABILITIES</b>				
Accounts payable	468,685	294,066	762,751	713,075
Accrued liabilities	273,845	38,979	312,824	-
Interest payable	7,266	-	7,266	38,909
Unearned revenue	97,907	-	97,907	134,680
Due to other governments	-	583,211	583,211	-
Unamortized bond premiums, net	17,134	-	17,134	693,141
Net pension liability	3,474,605	300,492	3,775,097	445,643
Net OPEB liability	27,281,726	195,246	27,476,972	-
Long-term liabilities				
Portion due or payable within one year	312,471	-	312,471	6,212,156
Portion due or payable after one year	2,456,710	120,675	2,577,385	6,415,883
<b>TOTAL LIABILITIES</b>	<b>34,390,349</b>	<b>1,532,669</b>	<b>35,923,018</b>	<b>14,653,487</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources, pension activity	3,878,972	478,879	4,357,851	710,198
Deferred inflows of resources, OPEB activity	8,448,840	60,466	8,509,306	-
<b>TOTAL INFLOWS OF RESOURCES</b>	<b>12,327,812</b>	<b>539,345</b>	<b>12,867,157</b>	<b>710,198</b>
<b>NET POSITION</b>				
Net investment in capital assets	25,830,185	685,775	26,515,960	55,819,168
Restricted for				
Grants	611,448	-	611,448	-
Liquid fuels	1,258,547	-	1,258,547	-
Unrestricted	(28,982,236)	5,823,176	(23,159,060)	671,206
<b>TOTAL NET POSITION</b>	<b>\$ (1,282,056)</b>	<b>\$ 6,508,951</b>	<b>\$ 5,226,895</b>	<b>\$ 56,490,374</b>

*See accompanying notes to the basic financial statements.*



**BOROUGH OF POTTSTOWN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2020**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities				
General government	\$ 1,476,676	\$ 692,618	\$ 9,200	\$ -
Public safety				
Police	10,075,818	271,265	981,162	-
Fire	1,328,323	21,515	105,753	-
Public works				
Zoning	1,757,629	69,539	-	-
Highways	989,127	18,576	657,060	-
Sanitation	3,343,488	2,808,284	-	-
Other	2,441,331	1,056,784	1,987,508	1,875,808
Culture and recreation				
Recreation	1,022,736	35,521	3,975	7,000
Library	176,977	-	-	-
Conservation and development	709,468	-	537,939	208,297
Interest on long-term debt	60,677	-	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>23,382,250</b>	<b>4,974,102</b>	<b>4,282,597</b>	<b>2,091,105</b>
Business-type activities				
Sewer	8,871,467	9,484,313	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 32,253,717</b>	<b>\$ 14,458,415</b>	<b>\$ 4,282,597</b>	<b>\$ 2,091,105</b>
<b>COMPONENT UNIT</b>				
Pottstown Borough Authority - Public Works	\$ 7,098,290	\$ 6,995,712	\$ -	\$ 341,897
<b>GENERAL REVENUES</b>				
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				
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
\$ (774,858)	\$ -	\$ (774,858)	
(8,823,391)	-	(8,823,391)	
(1,201,055)	-	(1,201,055)	
(1,688,090)	-	(1,688,090)	
(313,491)	-	(313,491)	
(535,204)	-	(535,204)	
2,478,769	-	2,478,769	
(976,240)	-	(976,240)	
(176,977)	-	(176,977)	
36,768	-	36,768	
(60,677)	-	(60,677)	
(12,034,446)	-	(12,034,446)	
-	612,846	612,846	
(12,034,446)	612,846	(11,421,600)	
			\$ <u>239,319</u>
9,866,784	-	9,866,784	-
41,656	-	41,656	-
478,915	-	478,915	-
2,414,776	-	2,414,776	-
369,503	-	369,503	-
49,692	36,627	86,319	98,886
17,947	-	17,947	2,897,735
-	3,906	3,906	24,070
497,837	-	497,837	-
43,568	-	43,568	-
160,666	94,116	254,782	-
-	(650,000)	(650,000)	650,000
200,000	-	200,000	(200,000)
14,141,344	(515,351)	13,625,993	3,470,691
2,106,898	97,495	2,204,393	3,710,010
(3,388,954)	6,411,456	3,022,502	52,780,364
\$ <u>(1,282,056)</u>	\$ <u>6,508,951</u>	\$ <u>5,226,895</u>	\$ <u>56,490,374</u>

# BOROUGH OF POTTSTOWN

## BALANCE SHEET

### GOVERNMENTAL FUNDS

DECEMBER 31, 2020

	<u>General Fund</u>	<u>Urban Transit Fund</u>	<u>Refuse Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,562,586	\$ 48,660	\$ 2,341,463
Restricted cash and cash equivalents	-	2,867	-
Receivables			
Accounts, net	168,473	-	840,893
Taxes	295,796	-	-
Due from other governments	-	229,587	-
Prepaid expenditures	238,473	-	28,235
Due from other funds	23,834	-	-
	<u>5,289,162</u>	<u>281,114</u>	<u>3,210,591</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 81,499	\$ 168,928	\$ 85,877
Accrued liabilities	254,480	-	6,771
Due to other funds	-	-	-
Unearned revenue	-	-	-
	<u>335,979</u>	<u>168,928</u>	<u>92,648</u>
<b>TOTAL LIABILITIES</b>			
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	<u>235,908</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT)</b>			
Nonspendable, prepaid expenditures	238,473	-	28,235
Restricted for			
Grants	-	611,448	-
Liquid fuels	-	-	-
Assigned to			
Airport improvement	-	-	-
Capital projects	-	-	-
Parking lot program purposes	-	-	-
Recreation	-	-	-
Street lighting	-	-	-
Fire services	-	-	-
Library	-	-	-
Refuse	-	-	3,089,708
Unassigned	4,478,802	(499,262)	-
	<u>4,717,275</u>	<u>112,186</u>	<u>3,117,943</u>
<b>TOTAL FUND BALANCES (DEFICIT)</b>			
	<u>5,289,162</u>	<u>281,114</u>	<u>3,210,591</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>			
	<u>\$ 5,289,162</u>	<u>\$ 281,114</u>	<u>\$ 3,210,591</u>

See accompanying notes to the basic financial statements.

<u>Borough Grant Fund</u>	<u>Liquid Fuels Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 1,258,547	\$ 2,121,640	\$ 10,332,896
-	-	-	2,867
-	-	3,419	1,012,785
-	-	95,442	391,238
90,982	-	-	320,569
-	-	63,963	330,671
-	-	-	23,834
<u>\$ 90,982</u>	<u>\$ 1,258,547</u>	<u>\$ 2,284,464</u>	<u>\$ 12,414,860</u>
\$ 31,572	\$ -	\$ 100,809	\$ 468,685
-	-	12,594	273,845
23,834	-	-	23,834
<u>89,154</u>	<u>-</u>	<u>8,753</u>	<u>97,907</u>
<u>144,560</u>	<u>-</u>	<u>122,156</u>	<u>864,271</u>
-	-	92,675	328,583
-	-	63,963	330,671
-	-	-	611,448
-	1,258,547	-	1,258,547
-	-	315,157	315,157
-	-	1,074,673	1,074,673
-	-	45,558	45,558
-	-	90,627	90,627
-	-	171,248	171,248
-	-	313,298	313,298
-	-	13,640	13,640
-	-	-	3,089,708
<u>(53,578)</u>	<u>-</u>	<u>(18,531)</u>	<u>3,907,431</u>
<u>(53,578)</u>	<u>1,258,547</u>	<u>2,069,633</u>	<u>11,222,006</u>
<u>\$ 90,982</u>	<u>\$ 1,258,547</u>	<u>\$ 2,284,464</u>	<u>\$ 12,414,860</u>

# BOROUGH OF POTTSTOWN

## RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2020

---

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 11,222,006
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Cost of capital assets	50,236,677
Accumulated depreciation	(22,095,867)
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.</p>	
	(2,498,099)
<p>Deferred inflows and outflows of resources related to other postemployment benefit activities are not financial resources and therefore not reported in the governmental funds.</p>	
	(4,925,444)
<p>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.</p>	
Interest payable	(7,266)
Compensated absences	(475,690)
Capital leases	(438,491)
Bonds payable	(1,855,000)
Net OPEB liability	(27,281,726)
Net pension liability	(3,474,605)
<p>Bond premiums are not recorded as liabilities in the Governmental Funds; however, these items are capitalized and amortized in the government-wide financial statements.</p>	
	(17,134)
<p>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.</p>	
	<u>328,583</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,282,056)</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, 2020**

	<u>General Fund</u>	Urban <u>Transit Fund</u>	<u>Refuse Fund</u>
<b>REVENUES</b>			
Taxes	\$ 10,417,145	\$ -	\$ -
Intergovernmental	941,826	3,811,233	-
Charges for services	1,546,776	240,705	2,803,905
Fees, licenses and permits	477,467	-	16,950
Court costs and fines	128,990	-	-
Interest and rents	22,111	-	12,727
Miscellaneous	133,688	945	7,470
TOTAL REVENUES	<u>13,668,003</u>	<u>4,052,883</u>	<u>2,841,052</u>
<b>EXPENDITURES</b>			
General government	1,544,831	-	-
Public safety			
Police department	10,180,321	-	-
Fire department	-	-	-
Public works			
Zoning	776,776	-	-
Highways	523,339	-	-
Sanitation	-	-	3,388,183
Other public works	-	4,838,772	-
Culture and recreation			
Recreation	-	-	-
Library	-	-	-
Capital projects	-	-	-
Conservation and development	79,485	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>13,104,752</u>	<u>4,838,772</u>	<u>3,388,183</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>563,251</u>	<u>(785,889)</u>	<u>(547,131)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	26,301	-	-
Transfers in	-	-	-
Transfers out	(140,000)	-	-
Contribution from Pottstown Borough Authority	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(113,699)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	449,552	(785,889)	(547,131)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>4,267,723</u>	<u>898,075</u>	<u>3,665,074</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 4,717,275</u>	<u>\$ 112,186</u>	<u>\$ 3,117,943</u>

*See accompanying notes to the basic financial statements.*

<u>Borough Grant Fund</u>	<u>Liquid Fuels Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,798,213	\$ 13,215,358
859,835	627,060	135,753	6,375,707
-	-	244,685	4,836,071
-	-	-	494,417
-	-	-	128,990
127	5,190	24,612	64,767
4,880	-	83,262	230,245
<u>864,842</u>	<u>632,250</u>	<u>3,286,525</u>	<u>25,345,555</u>
-	-	1,393	1,546,224
160,371	-	-	10,340,692
-	-	1,382,721	1,382,721
-	-	-	776,776
60,965	96,169	317,721	998,194
-	-	-	3,388,183
-	-	118,354	4,957,126
65,984	-	926,334	992,318
-	-	177,016	177,016
-	-	5,451	5,451
540,143	-	-	619,628
-	-	299,372	299,372
-	-	67,308	67,308
<u>827,463</u>	<u>96,169</u>	<u>3,295,670</u>	<u>25,551,009</u>
<u>37,379</u>	<u>536,081</u>	<u>(9,145)</u>	<u>(205,454)</u>
-	-	31,552	57,853
-	-	315,000	315,000
-	-	(175,000)	(315,000)
-	-	200,000	200,000
<u>-</u>	<u>-</u>	<u>371,552</u>	<u>257,853</u>
37,379	536,081	362,407	52,399
<u>(90,957)</u>	<u>722,466</u>	<u>1,707,226</u>	<u>11,169,607</u>
<u>\$ (53,578)</u>	<u>\$ 1,258,547</u>	<u>\$ 2,069,633</u>	<u>\$ 11,222,006</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, 2020

---

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 52,399
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 (\$2,983,997) exceeds depreciation (\$1,642,453) in the current period.	1,341,544
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net position.	(14,285)
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 decreased by this amount this year.	(43,724)
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	89,780
General obligation debt	210,000
Notes payable	117,882
Amortization of bond premiums	4,856
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	(22,252)
OPEB plan expense	(985,011)
Pension plan expense	1,404,875
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.	1,367
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the Governmental Funds.	<u>(50,533)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,106,898</u>

*See accompanying notes to the basic financial statements.*



**BOROUGH OF POTTSTOWN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2020**

	<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	\$ 4,695,940	\$ 727,106	\$ 5,423,046
Receivables, net	1,978,527	-	1,978,527
Due from other governments	313,466	-	313,466
Prepaid expenses	59,093	15,245	74,338
TOTAL CURRENT ASSETS	<u>7,047,026</u>	<u>742,351</u>	<u>7,789,377</u>
<b>CAPITAL ASSETS</b>			
Capital assets being depreciated	6,367,251	-	6,367,251
Accumulated depreciation	(5,681,476)	-	(5,681,476)
TOTAL CAPITAL ASSETS	<u>685,775</u>	<u>-</u>	<u>685,775</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources, OPEB activity	20,543	4,673	25,216
Deferred outflows of resources, pension activity	69,983	10,614	80,597
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>90,526</u>	<u>15,287</u>	<u>105,813</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,823,327</u>	<u>\$ 757,638</u>	<u>\$ 8,580,965</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 193,097	\$ 100,969	\$ 294,066
Accrued liabilities	33,243	5,736	38,979
Due to other governments	583,211	-	583,211
TOTAL CURRENT LIABILITIES	<u>809,551</u>	<u>106,705</u>	<u>916,256</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources, OPEB activity	49,260	11,206	60,466
Deferred inflows of resources, pension activity	415,813	63,066	478,879
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>465,073</u>	<u>74,272</u>	<u>539,345</u>
<b>LONG-TERM LIABILITIES</b>			
Compensated absences	103,686	16,989	120,675
Net OPEB liability	159,062	36,184	195,246
Net pension liability	260,919	39,573	300,492
TOTAL LONG-TERM LIABILITIES	<u>523,667</u>	<u>92,746</u>	<u>616,413</u>
<b>NET POSITION</b>			
Net investment in capital assets	685,775	-	685,775
Unrestricted	5,339,261	483,915	5,823,176
TOTAL NET POSITION	<u>6,025,036</u>	<u>483,915</u>	<u>6,508,951</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 7,823,327</u>	<u>\$ 757,638</u>	<u>\$ 8,580,965</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, 2020**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 9,484,313	\$ -	\$ 9,484,313
<b>OPERATING EXPENSES</b>			
Sewage disposal	4,082,944	-	4,082,944
Public works, general service	359,246	-	359,246
Sewer lines	-	470,633	470,633
General expenses	206,411	-	206,411
Insurance	67,012	-	67,012
Employee benefits	499,817	-	499,817
General government	11,033	-	11,033
Executive	65,128	-	65,128
Financial administration	215,708	-	215,708
Personnel administration	117,957	-	117,957
Building maintenance	66,264	-	66,264
Depreciation	57,751	-	57,751
Lease payments	2,651,563	-	2,651,563
<b>TOTAL OPERATING EXPENSES</b>	<u>8,400,834</u>	<u>470,633</u>	<u>8,871,467</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,083,479</u>	<u>(470,633)</u>	<u>612,846</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	35,630	997	36,627
Realized and unrealized gains on investments	3,906	-	3,906
Miscellaneous revenue	61,165	5,501	66,666
Cell tower revenues	27,450	-	27,450
Contribution to Pottstown Borough Authority	(650,000)	-	(650,000)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(521,849)</u>	<u>6,498</u>	<u>(515,351)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>561,630</u>	<u>(464,135)</u>	<u>97,495</u>
<b>TRANSFERS</b>			
Transfers in (out)	(750,000)	750,000	-
<b>CHANGE IN NET POSITION</b>	<u>(188,370)</u>	<u>285,865</u>	<u>97,495</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>6,213,406</u>	<u>198,050</u>	<u>6,411,456</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 6,025,036</u>	<u>\$ 483,915</u>	<u>\$ 6,508,951</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2020**

	<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	\$ 9,454,169	\$ -	\$ 9,454,169
Payment to employees	(1,916,959)	(200,640)	(2,117,599)
Payment to suppliers	(4,258,966)	(189,089)	(4,448,055)
Lease payments	(2,651,563)	-	(2,651,563)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>626,681</u>	<u>(389,729)</u>	<u>236,952</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	<u>(88,880)</u>	-	<u>(88,880)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from (to) other funds	(750,000)	750,000	-
Contribution to Pottstown Borough Authority	(650,000)	-	(650,000)
Cell tower revenues	27,450	-	27,450
Miscellaneous revenue	61,165	5,501	66,666
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,311,385)</u>	<u>755,501</u>	<u>(555,884)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	39,536	997	40,533
Sale of investments	2,536,094	-	2,536,094
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,575,630</u>	<u>997</u>	<u>2,576,627</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,802,046	366,769	2,168,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,893,894</u>	<u>360,337</u>	<u>3,254,231</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,695,940</u>	<u>\$ 727,106</u>	<u>\$ 5,423,046</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2020**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 1,083,479	\$ (470,633)	\$ 612,846
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	57,751	-	57,751
Pension expense	(206,154)	(31,266)	(237,420)
OPEB expense	23,162	5,269	28,431
(Increase) decrease in			
Receivables	30,992	-	30,992
Due from other governments	(295,431)	-	(295,431)
Prepaid expenses	4,637	(1,225)	3,412
Increase (decrease) in			
Accounts payable	(40,735)	100,086	59,351
Accrued liabilities	5,272	279	5,551
Due to other governments	(61,136)	-	(61,136)
Compensated absences	24,844	7,761	32,605
	<u>626,681</u>	<u>(389,729)</u>	<u>236,952</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ <u>626,681</u></b>	<b>\$ <u>(389,729)</u></b>	<b>\$ <u>236,952</u></b>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2020**

	Pension Trust Funds	
	Police Pension	Non-Uniformed Employees' Pension
<b>ASSETS</b>		
Cash and cash equivalents	\$ 916,052	\$ 731,946
Investments	29,143,183	21,211,211
Receivables	-	-
<b>TOTAL ASSETS</b>	<b>\$ 30,059,235</b>	<b>\$ 21,943,157</b>
<b>NET POSITION</b>		
Restricted for		
Developer escrows	\$ -	\$ -
Restricted and held in trust for		
Pension benefits	30,059,235	21,943,157
Postemployment benefits	-	-
<b>TOTAL NET POSITION</b>	<b>\$ 30,059,235</b>	<b>\$ 21,943,157</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>Custodial Fund</u>
\$ 250,306 2,126,467 <hr style="width: 100%;"/> -	\$ 9,124 722,163 <hr style="width: 100%;"/> -	\$ 347,056 - 17,563 <hr style="width: 100%;"/> 364,619
\$ <u>2,376,773</u>	\$ <u>731,287</u>	\$ <u>364,619</u>
\$ - - <hr style="width: 100%;"/> 2,376,773	\$ - - <hr style="width: 100%;"/> 731,287	\$ 364,619 - <hr style="width: 100%;"/> -
\$ <u>2,376,773</u>	\$ <u>731,287</u>	\$ <u>364,619</u>

**BOROUGH OF POTTSTOWN**

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2020

	Pension Trust Funds	
	Police Pension	Non-Uniformed Employees' Pension
ADDITIONS		
Contributions		
Member contributions	\$ 267,756	\$ 309,824
Borough contribution	1,784,671	1,320,150
TOTAL CONTRIBUTIONS	<u>2,052,427</u>	<u>1,629,974</u>
Developer escrow receipts	<u>-</u>	<u>-</u>
Investment earnings		
Net appreciation in fair value of investments	3,837,728	2,735,528
Interest and dividend income	447,764	327,207
TOTAL INVESTMENT EARNINGS	<u>4,285,492</u>	<u>3,062,735</u>
Investment expense	(6)	(1,329)
INVESTMENT EARNINGS, net	<u>4,285,486</u>	<u>3,061,406</u>
TOTAL ADDITIONS	<u>6,337,913</u>	<u>4,691,380</u>
DEDUCTIONS		
Benefits	2,037,077	1,155,501
Advisor fees	50,485	34,961
Developer escrow payments	-	-
TOTAL DEDUCTIONS	<u>2,087,562</u>	<u>1,190,462</u>
CHANGE IN NET POSITION	4,250,351	3,500,918
NET POSITION AT BEGINNING OF YEAR	<u>25,808,884</u>	<u>18,442,239</u>
NET POSITION AT END OF YEAR	<u>\$ 30,059,235</u>	<u>\$ 21,943,157</u>

*See accompanying notes to the basic financial statements.*

Post Employment Trust Funds

<u>OPEB</u>	<u>Police Retirement</u>	<u>Custodial Fund</u>
\$ -	\$ 76,413	\$ -
250,000	-	-
<u>250,000</u>	<u>76,413</u>	<u>-</u>
-	-	215,486
230,314	76,170	-
46,432	14,166	1,377
276,746	90,336	1,377
-	-	-
<u>276,746</u>	<u>90,336</u>	<u>1,377</u>
526,746	166,749	216,863
-	-	-
3,650	1,176	-
-	-	274,037
<u>3,650</u>	<u>1,176</u>	<u>274,037</u>
523,096	165,573	(57,174)
<u>1,853,677</u>	<u>565,714</u>	<u>421,793</u>
\$ <u><u>2,376,773</u></u>	\$ <u><u>731,287</u></u>	\$ <u><u>364,619</u></u>



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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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.

The Borough is governed by a 7-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Fiduciary component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, fiduciary component units are appropriately presented as funds of the primary government.

***Fiduciary Component Units*** - The Borough's fiduciary component units are the Pottstown Borough Police Pension Fund (the "Police Pension Fund"), the Borough of Pottstown Non-Uniform Pension Fund (the "Non-Uniform Employees' Pension Fund"), the Other Post Employment Benefits Fund (the "OPEB Fund") and Police Retirement Fund (the "Police Retirement Fund"). Although, the pension and other post-employment benefit plans are separate legal entities, they are reported as if they are part of the government as they are governed by boards comprised of members appointed by the Borough Council and the Borough is responsible for funding the plans. The plans are reported as fiduciary funds and do not issue separate financial statements.

***Pottstown Borough 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. 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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

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.

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.

***Police Pension Fund*** – The Police Pension Plan is a single employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers. Although the plan is a separate legal entity it is reported as if it is part of the government as it is governed by a board comprised of members appointed by the Board of supervisors of the Borough and the Borough is responsible for funding the plan. The plan is reported as a fiduciary fund and does not issue separate financial statements.

***Non-Uniformed Employees' Pension Fund*** – The Non-Uniformed Pension Plan is a single employer defined contribution pension plan that provides pension benefits for its full-time, non-uniform employees and its part-time, non-uniform employees working initially at least 1,000 hours per year. Although the plan is a separate legal entity it is reported as if it is part of the government as it is governed by a board comprised of members appointed by the Board of supervisors of the Borough and the Borough is responsible for funding the plan. The plan is reported as a fiduciary fund and does not issue separate financial statements.

***OPEB Fund*** – The OPEB Fund is a single employer postemployment benefit plan that provides for the security and welfare of its employees, their spouses, and eligible dependents by funding one or more post-retirement welfare benefit plans, programs, arrangements, collective bargaining agreements, resolutions, or arbitration awards to provide for medical or other similar benefits through insurance and self-funded reimbursement plans.

***Police Retirement Fund*** – The Police Retirement Fund is a single employer postemployment benefit plan that provides for the security and welfare of its employees, their spouses, and eligible dependents by funding one or more post-retirement welfare benefit plans, programs, arrangements, collective bargaining agreements, resolutions, or arbitration awards to provide for medical or other similar benefits through insurance and self-funded reimbursement plans.

**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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

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 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.

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, Library Fund and Parking Lot Fund.

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

**Debt Service Fund** - 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, 2020

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

**Fiduciary Fund Types**

**Pension Trust Funds** – Funds are used to account for financial resources restricted solely for Police and Non-Uniformed Employees' Pension Plans.

**Post Employment Trust Funds** – Funds are used to account for financial resources restricted solely for the OPEB Trust and Police Retirement Trust.

**Custodial Fund** – The Borough's custodial funds consists of developer escrow deposits held by the Borough.

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

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

***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.

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 the Custodial Fund 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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

**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.

**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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

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.
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 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 changes in plan assumptions.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

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 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.
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.

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. 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.



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

- **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.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

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.

**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 \$2,867 at December 31, 2020, 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" and "unrestricted" components. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net position.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE A - SUMMARY OF 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 \$2,254,921, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$7,792,850 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, 2020

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

**Long-Term Obligations** - Long-term debt and other long-term obligations are reported as liabilities in the applicable 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Deferred Loss on Refunding** - The deferred loss on refunding reported by the Pottstown Borough Authority. 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.

**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**

**Deposits**

As of December 31, 2020, \$16,762,589 of the Borough's total bank balance of \$17,262,589 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	\$ 15,105,161
Uninsured	<u>1,657,428</u>
	<u>\$ 16,762,589</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**Investments**

**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. At December 31, 2020, the Borough's pension and other post-employment benefit plans held \$53,192,746 in various investments, all of which are considered Level 1 investments.

The Borough's governmental and proprietary funds did not hold any investments as of December 31, 2020. The following table reflects investments held by the pension and other post-employment benefit trust funds as of December 31, 2020:

Investment Type	Fair Value	Investment Maturities		
		0-5 Years	5-10 Years	More than 10 Years
US equities	\$ 27,452,304	\$ 27,452,304	\$ -	\$ -
International equities	6,953,247	6,953,247	-	-
Taxable fixed income	18,722,253	18,722,253	-	-
Mutual funds	64,942	64,942	-	-
	<u>\$ 53,192,746</u>	<u>\$ 53,192,746</u>	<u>\$ -</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.

**Concentration of Credit Risk** - For the year ended December 31, 2020, two individual investments made up approximately 23% of the Borough's pension and other post-employment benefit plans total investments.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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, 2020, 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	\$ 2,254,921	\$ -	\$ -

  

Investment Type	Fair Value		
	Level 1	Level 2	Level 3
U.S. Government Treasury strips	\$ 2,254,921	\$ -	\$ -

**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, 2020, \$8,153,713 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>8,153,713</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**  
**DECEMBER 31, 2020**

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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 2020 was 9.449 mills for general purposes, 1.058 mills for recreation purposes, .056 mills for debt purposes, .337 mills for street light purposes, 2.031 mills for fire services purposes and .230 mills for library purposes, on a total County assessed valuation of \$761,992,039.

**NOTE D - RECEIVABLES**

Receivables and the related allowance for doubtful accounts as of December 31, 2020, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
Accounts receivable	\$ 1,127,083	\$ 114,318	\$ 1,012,765
Taxes receivable	392,263	-	392,263
Due from other governments	319,544	-	319,544
<b>GOVERNMENTAL FUNDS</b>			
Accounts receivable	\$ 1,127,083	\$ 114,318	\$ 1,012,765
Taxes receivable	391,238	-	391,238
Due from other governments	320,569	-	320,569
<b>BUSINESS-TYPE ACTIVITIES/ PROPRIETARY FUNDS</b>			
Accounts receivable	\$ 2,233,695	\$ 255,168	\$ 1,978,527
Due from other governments	313,466	-	313,466
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>			
Accounts receivable	\$ 1,626,532	\$ 240,346	\$ 1,386,186

**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, 2020	Additions	Deletions	Balance December 31, 2020
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352
Construction in progress	2,139,621	127,956	(2,267,577)	-
<b>TOTAL CAPITAL ASSETS NOT     BEING DEPRECIATED</b>	<b>4,787,973</b>	<b>127,956</b>	<b>(2,267,577)</b>	<b>2,648,352</b>
Capital assets being depreciated				
Land improvements	10,522,901	1,968,693	-	12,491,594
Buildings and building improvements	13,715,651	298,884	-	14,014,535
Machinery and equipment	11,584,981	2,826,516	(548,332)	13,863,165
Infrastructure	7,189,506	29,525	-	7,219,031
<b>TOTAL CAPITAL ASSETS     BEING DEPRECIATED</b>	<b>43,013,039</b>	<b>5,123,618</b>	<b>(548,332)</b>	<b>47,588,325</b>
Accumulated depreciation				
Land improvements	(6,128,411)	(436,443)	-	(6,564,854)
Buildings and building improvements	(4,346,361)	(277,783)	-	(4,624,144)
Machinery and equipment	(9,554,174)	(745,536)	534,047	(9,765,663)
Infrastructure	(958,515)	(182,691)	-	(1,141,206)
<b>TOTAL ACCUMULATED     DEPRECIATION</b>	<b>(20,987,461)</b>	<b>(1,642,453)</b>	<b>534,047</b>	<b>(22,095,867)</b>
<b>TOTAL CAPITAL ASSETS     BEING DEPRECIATED, net</b>	<b>22,025,578</b>	<b>3,481,165</b>	<b>(14,285)</b>	<b>25,492,458</b>
<b>GOVERNMENTAL ACTIVITIES     CAPITAL ASSETS, net</b>	<b>\$ 26,813,551</b>	<b>\$ 3,609,121</b>	<b>\$ (2,281,862)</b>	<b>\$ 28,140,810</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Machinery and equipment	\$ 496,616	\$ 88,880	\$ -	\$ 585,496
Infrastructure	5,781,755	-	-	5,781,755
<b>TOTAL CAPITAL ASSETS     BEING DEPRECIATED</b>	<b>6,278,371</b>	<b>88,880</b>	<b>-</b>	<b>6,367,251</b>
Accumulated depreciation				
Machinery and equipment	(465,105)	(26,833)	-	(491,938)
Infrastructure	(5,158,620)	(30,918)	-	(5,189,538)
<b>TOTAL ACCUMULATED     DEPRECIATION</b>	<b>(5,623,725)</b>	<b>(57,751)</b>	<b>-</b>	<b>(5,681,476)</b>
<b>TOTAL CAPITAL ASSETS     BEING DEPRECIATED, net</b>	<b>654,646</b>	<b>31,129</b>	<b>-</b>	<b>685,775</b>
<b>BUSINESS-TYPE ACTIVITIES     CAPITAL ASSETS, net</b>	<b>\$ 654,646</b>	<b>\$ 31,129</b>	<b>\$ -</b>	<b>\$ 685,775</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	\$	313,408
Public safety		189,372
Public works		980,853
Culture and recreation		<u>158,820</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>1,642,453</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>		
Public works, sewer services	\$	<u>57,751</u>

**Component Unit - Pottstown Borough Authority**

A summary of changes in capital assets is as follows:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
<b>SEWER FUND</b>				
Capital assets not being depreciated				
Land	\$ 36,650	\$ -	\$ -	\$ 36,650
Construction in progress	<u>5,195,092</u>	<u>1,024,944</u>	<u>(1,371,444)</u>	<u>4,848,592</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>5,231,742</u>	<u>1,024,944</u>	<u>(1,371,444)</u>	<u>4,885,242</u>
Capital assets being depreciated				
Buildings and building improvements	34,334,163	599,354	-	34,933,517
Machinery and equipment	1,480,096	-	-	1,480,096
Infrastructure	<u>12,743,471</u>	<u>772,090</u>	<u>-</u>	<u>13,515,561</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>48,557,730</u>	<u>1,371,444</u>	<u>-</u>	<u>49,929,174</u>
Accumulated depreciation				
Buildings and building improvements	(19,261,999)	(838,386)	-	(20,100,385)
Machinery and equipment	(973,520)	(58,290)	-	(1,031,810)
Infrastructure	<u>(2,966,098)</u>	<u>(244,384)</u>	<u>-</u>	<u>(3,210,482)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(23,201,617)</u>	<u>(1,141,060)</u>	<u>-</u>	<u>(24,342,677)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>25,356,113</u>	<u>230,384</u>	<u>-</u>	<u>25,586,497</u>
<b>SEWER FUND CAPITAL ASSETS, net</b>	<b><u>\$ 30,587,855</u></b>	<b><u>\$ 1,255,328</u></b>	<b><u>\$ (1,371,444)</u></b>	<b><u>\$ 30,471,739</u></b>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE E - CAPITAL ASSETS (Continued)**

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
<b>WATER FUND</b>				
Capital assets not being depreciated				
Land	\$ 330,179	\$ -	\$ -	\$ 330,179
Construction in progress	1,486,947	1,085,806	(1,798,139)	774,614
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>1,817,126</b>	<b>1,085,806</b>	<b>(1,798,139)</b>	<b>1,104,793</b>
Capital assets being depreciated				
Machinery and equipment	1,213,621	-	-	1,213,621
Infrastructure	41,333,635	1,798,139	-	43,131,774
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>42,547,256</b>	<b>1,798,139</b>	<b>-</b>	<b>44,345,395</b>
Accumulated depreciation				
Machinery and equipment	(1,016,835)	(39,222)	-	(1,056,057)
Infrastructure	(15,156,194)	(1,127,956)	-	(16,284,150)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(16,173,029)</b>	<b>(1,167,178)</b>	<b>-</b>	<b>(17,340,207)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>26,374,227</b>	<b>630,961</b>	<b>-</b>	<b>27,005,188</b>
<b>WATER FUND CAPITAL ASSETS, net</b>	<b>\$ 28,191,353</b>	<b>\$ 1,716,767</b>	<b>\$ (1,798,139)</b>	<b>\$ 28,109,981</b>

Depreciation expense was \$1,141,060 in the Sewer Fund and \$1,167,178 in the Water Fund for the year ended December 31, 2020.

**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.

**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, 2020, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits <sup>1</sup>	47 <sup>1</sup>
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>42</u>
	<u>90</u>

<sup>1</sup>Includes two 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**  
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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 \$1,784,671 to the plan for the year ended December 31, 2020.

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, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
Fixed income	50%
	<u>100%</u>

**Concentrations** - For the year ended December 31, 2020, two individual investments made up approximately 23% of the Plan's total investments.

**Rate of Return** - For the year ended December 31, 2020, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 17.1%. 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**  
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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, 2020, were as follows:

Total pension liability	\$ 32,898,369
Plan fiduciary net position	<u>(30,059,235)</u>
NET PENSION LIABILITY	<u>\$ 2,839,134</u>

Plan fiduciary net position as a percentage of the total pension liability	<u>91.37%</u>
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**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of January 1, 2019, 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, 2020 (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**  
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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

**Changes in the Net Pension Liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2019	\$ 31,613,959	\$ 25,808,884	\$ 5,805,075
Changes for the year			
Service costs	718,746	-	718,746
Interest costs	2,580,492	-	2,580,492
Contributions			
Employer	-	1,784,671	(1,784,671)
Member	-	267,756	(267,756)
Net investment income	-	4,234,952	(4,234,952)
Benefit payments	(2,014,828)	(2,014,828)	-
Administrative expenses	-	(22,200)	22,200
Net changes	<u>1,284,410</u>	<u>4,250,351</u>	<u>(2,965,941)</u>
Balances at December 31, 2020	<u>\$ 32,898,369</u>	<u>\$ 30,059,235</u>	<u>\$ 2,839,134</u>

**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	\$ <u>6,971,279</u>	\$ <u>2,839,134</u>	\$ <u>(589,013)</u>

**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, 2020, the Borough recognized pension expense, including the MMO, of \$881,888. At December 31, 2020, 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	\$ 927,341	\$ -
Changes in assumptions	283,087	205,998
Differences between projected and actual investment earnings	<u>-</u>	<u>2,660,259</u>
	<u>\$ 1,210,428</u>	<u>\$ 2,866,257</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>	
2021	\$ (422,738)
2022	(235,819)
2023	(779,996)
2024	(217,276)

**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, 2020, two members have elected to participate in the DROP. The total DROP account balance is \$75,220 at December 31, 2020.

**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, 2020, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	55
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	<u>77</u>
	<u><u>140</u></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**  
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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, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
Fixed income	50%
	<u>100%</u>

**Concentrations** – For the year ended December 31, 2020, there were no individual investments that exceed 10% of the Borough's total investments.

**Rate of Return** - For the year ended December 31, 2020, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 16.8%. 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, 2020, were as follows:

**Primary Government - Governmental Activities:**

Total pension liability	\$ 10,728,231
Plan fiduciary net position	<u>(10,092,760)</u>
NET PENSION LIABILITY	<u>\$ 635,471</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>94.08%</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	\$ 5,073,019
Plan fiduciary net position	<u>(4,772,527)</u>
NET PENSION LIABILITY	<u>\$ 300,492</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>94.08%</u>

***Component Unit - Pottstown Borough Authority:***

Total pension liability	\$ 7,523,513
Plan fiduciary net position	<u>(7,077,870)</u>
NET PENSION LIABILITY	<u>\$ 445,643</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>94.08%</u>

***Actuarial Assumptions*** - The total pension liability was determined by an actuarial valuation as of January 1, 2019, 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**  
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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, 2020 (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 used to measure the total pension liability was 6.50%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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, 2019	\$ 10,351,625	\$ 8,482,513	\$ 1,869,112
Changes for the year			
Service costs	233,558	-	233,558
Interest costs	670,882	-	670,882
Contributions			
Employer	-	607,203	(607,203)
Member	-	126,693	(126,693)
Net investment income	-	1,404,185	(1,404,185)
Benefit payments	(527,834)	(527,834)	-
Administrative expenses	-	-	-
Net changes	<u>376,606</u>	<u>1,610,247</u>	<u>(1,233,641)</u>
Balances at December 31, 2020	<u>\$ 10,728,231</u>	<u>\$ 10,092,760</u>	<u>\$ 635,471</u>

***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, 2019	\$ 4,894,934	\$ 4,011,094	\$ 883,840
Changes for the year			
Service costs	110,442	-	110,442
Interest costs	317,238	-	317,238
Contributions			
Employer	-	287,126	(287,126)
Member	-	59,909	(59,909)
Net investment income	-	663,993	(663,993)
Benefit payments	(249,595)	(249,595)	-
Administrative expenses	-	-	-
Net changes	<u>178,085</u>	<u>761,433</u>	<u>(583,348)</u>
Balances at December 31, 2020	<u>\$ 5,073,019</u>	<u>\$ 4,772,527</u>	<u>\$ 300,492</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**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, 2019	\$ 7,259,406	\$ 5,948,632	\$ 1,310,774
Changes for the year			
Service costs	163,790	-	163,790
Interest costs	470,477	-	470,477
Contributions			
Employer	-	425,821	(425,821)
Member	-	88,847	(88,847)
Net investment income	-	984,730	(984,730)
Benefit payments	(370,160)	(370,160)	-
Administrative expenses	-	-	-
Net changes	<u>264,107</u>	<u>1,129,238</u>	<u>(865,131)</u>
Balances at December 31, 2020	<u>\$ 7,523,513</u>	<u>\$ 7,077,870</u>	<u>\$ 445,643</u>

***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	\$ <u>1,660,513</u>	\$ <u>635,471</u>	\$ <u>(234,583)</u>

***Primary Government - Business-Type Activities:***

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ <u>785,038</u>	\$ <u>300,492</u>	\$ <u>(110,904)</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

***Component Unit - Pottstown Borough Authority:***

	1% Decrease <u>(5.5%)</u>	Current Discount Rate (6.5%) <u></u>	1% Increase <u>(7.5%)</u>
Net pension liability	\$ <u>1,164,651</u>	\$ <u>445,643</u>	\$ <u>(164,532)</u>

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** - For the year ended December 31, 2020, the Borough recognized pension expense of \$154,757 and the Authority recognized pension expense of \$73,772. At December 31, 2020, 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:***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 44,255	\$ 172,425
Changes in assumptions	126,190	-
Differences between projected and actual investment earnings	<u>-</u>	<u>840,290</u>
	<u>\$ 170,445</u>	<u>\$ 1,012,715</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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	\$ 20,927	\$ 81,534
Changes in assumptions	59,670	-
Differences between projected and actual investment earnings	<u>-</u>	<u>397,345</u>
	<u>\$ 80,597</u>	<u>\$ 478,879</u>

***Component Unit - Pottstown Borough Authority:***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 31,035	\$ 120,918
Changes in assumptions	88,494	-
Differences between projected and actual investment earnings	<u>-</u>	<u>589,280</u>
	<u>\$ 119,529</u>	<u>\$ 710,198</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>	
2021	\$ (266,915)
2022	(290,160)
2023	(906,225)
2024	(367,921)

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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, 2020, plan membership consisted of the following:

Active participants	124
Retired participants	<u>58</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 2020, the members contributed \$76,465 and the Borough contributed \$639,254 for current benefits and an additional \$250,000 to the plan for future benefits, using the implicit rate subsidy. The funds are accounted for in two separate trusts established by the Borough Council.

**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, 2020**

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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, 2020:

<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, 2020, the annual money-weighted rate of return on plan investments, net of plan expenses were 14.7% for the OPEB Trust and 14.75% for the Police Retirement Trust. 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, 2020

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Net OPEB Liability of the Borough***

The components of the net OPEB liability of the Borough at December 31, 2020, were as follows:

Total OPEB liability	\$ 30,585,033
Plan fiduciary net position	<u>(3,108,061)</u>
NET OPEB LIABILITY	<u>\$ 27,476,972</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>10.16%</u>

**Actuarial Assumptions** – The total OPEB liability was determined by an actuarial valuation as of January 1, 2020, 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 5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% 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 1.93% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2020.

**Changes in Assumptions** - In 2020, the discount rate changed from 3.77% to 3.36%.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Changes in the Net OPEB Liability***

	Governmental Activities		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balances at December 31, 2019	\$ 32,607,716	\$ 2,402,278	\$ 30,205,438
Changes for the year			
Service costs	1,429,414	-	1,429,414
Interest costs	1,270,288	-	1,270,288
Changes of benefit terms	18,015	-	18,015
Changes for experience	(6,187,619)	-	(6,187,619)
Changes for assumptions	1,865,576	-	1,865,576
Contributions			
Employer	-	883,536	(883,536)
Member	-	75,973	(75,973)
Net investment income	-	364,722	(364,722)
Benefit payments	(635,143)	(635,143)	-
Administrative expenses	-	(4,845)	4,845
Net changes	<u>(2,239,469)</u>	<u>684,243</u>	<u>(2,923,712)</u>
Balances at December 31, 2020	<u>\$ 30,368,247</u>	<u>\$ 3,086,521</u>	<u>\$ 27,281,726</u>

	Business-Type Activities		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balances at December 31, 2019	\$ 212,598	\$ 17,113	\$ 195,485
Changes for the year			
Service costs	9,251	-	9,251
Interest costs	8,221	-	8,221
Changes of benefit terms	117	-	117
Changes for experience	(40,045)	-	(40,045)
Changes for assumptions	30,755	-	30,755
Contributions			
Employer	-	5,718	(5,718)
Member	-	492	(492)
Net investment income	-	2,360	(2,360)
Benefit payments	(4,111)	(4,111)	-
Administrative expenses	-	(32)	32
Net changes	<u>4,188</u>	<u>4,427</u>	<u>(239)</u>
Balances at December 31, 2020	<u>\$ 216,786</u>	<u>\$ 21,540</u>	<u>\$ 195,246</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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 (4.36%) or 1% point higher (2.36%) than the current discount rate:

	1% Decrease (2.36%)	Current Discount Rate (3.36%)	1% Increase (4.36%)
Borough's net OPEB liability	\$ <u>22,428,049</u>	\$ <u>27,476,972</u>	\$ <u>34,003,750</u>

***Sensitivity of the Net OPEB Liability to Changes in 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 (4.5%) or 1% point higher (6.5%) than the current healthcare cost trend rate:

	1% Decrease (4.5%)	Healthcare Cost Trend Rate (5.5%)	1% Increase (6.5%)
Borough's net OPEB liability	\$ <u>35,455,654</u>	\$ <u>27,476,972</u>	\$ <u>21,551,479</u>

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - For the year ended December 31, 2020, the Borough recognized OPEB expense of \$1,013,442. At December 31, 2020, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Governmental Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 6,102,158
Changes in assumptions	3,523,396	2,135,062
Differences between projected and actual investment earnings	<u>-</u>	<u>211,620</u>
	<u>\$ 3,523,396</u>	<u>\$ 8,448,840</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

	<u>Business-Type Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 43,671
Changes in assumptions	25,216	15,280
Differences between projected and actual investment earnings	<u>-</u>	<u>1,515</u>
	<u>\$ 25,216</u>	<u>\$ 60,466</u>

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2021	\$ (589,095)	\$ (4,216)
2022	(580,150)	(4,152)
2023	(617,386)	(4,418)
2024	(577,791)	(4,135)
2025	(538,200)	(3,852)
Thereafter	(2,022,822)	(14,477)

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE I - LONG-TERM LIABILITIES**

**Primary Government**

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

	Balance Outstanding January 1, 2020	Additions	Deletions	Balance Outstanding December 31, 2020	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premiums	\$ 21,990	\$ -	\$ (4,856)	\$ 17,134	\$ -
General Obligation Bond, Series of 2017	2,065,000	-	(210,000)	1,855,000	220,000
Promissory Note, Series of 2015	117,882	-	(117,882)	-	-
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<u>2,204,872</u>	<u>-</u>	<u>(332,738)</u>	<u>1,872,134</u>	<u>220,000</u>
<b>OTHER LIABILITIES</b>					
Capital leases	528,271	-	(89,780)	438,491	92,471
Net OPEB liability	30,205,438	-	(2,923,712)	27,281,726	-
Compensated absences	453,438	22,252	-	475,690	-
Net Pension liability	7,674,187	-	(4,199,582)	3,474,605	-
<b>TOTAL OTHER LIABILITIES</b>	<u>38,861,334</u>	<u>22,252</u>	<u>(7,213,074)</u>	<u>31,670,512</u>	<u>92,471</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 41,066,206</u>	<u>\$ 22,252</u>	<u>\$ (7,545,812)</u>	<u>\$ 33,542,646</u>	<u>\$ 312,471</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Compensated absences	\$ 88,070	\$ 32,605	\$ -	\$ 120,675	\$ -
Net OPEB liability	195,485	-	(239)	195,246	-
Net Pension liability	883,840	-	(583,348)	300,492	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 1,167,395</u>	<u>\$ 32,605</u>	<u>\$ (583,587)</u>	<u>\$ 616,413</u>	<u>\$ -</u>

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. The outstanding bonds are summarized as follows:

Year Ending December 31,	Principal	Interest	Totals
2021	\$ 220,000	\$ 43,658	\$ 263,658
2022	225,000	37,008	262,008
2023	230,000	32,285	262,285
2024	235,000	27,110	262,110
2025	240,000	21,528	261,528
2026 to 2028	<u>705,000</u>	<u>27,500</u>	<u>732,500</u>
	<u>\$ 1,855,000</u>	<u>\$ 189,089</u>	<u>\$ 2,044,089</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**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. The note was fully repaid during 2020.

**Component Unit - Pottstown Borough Authority**

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

	Balance Outstanding January 1, 2020	Additions	Deletions	Balance Outstanding December 31, 2020	Due Within One Year
<b>SEWER FUND</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premiums	\$ 453,767	\$ -	\$ (230,419)	\$ 223,348	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	4,127,090	264,066 (1)	(2,255,000)	2,136,156	2,136,156
Guaranteed Sewer Revenue Bonds					
Series of 2012	2,200,000	-	(340,000)	1,860,000	350,000
Series of 2016	4,180,000	-	(2,035,000)	2,145,000	2,145,000
	<u>10,960,857</u>	<u>264,066</u>	<u>(4,860,419)</u>	<u>6,364,504</u>	<u>4,631,156</u>
<b>TOTAL SEWER FUND BONDS AND NOTES PAYABLE</b>	<b>\$ 10,960,857</b>	<b>\$ 264,066</b>	<b>\$ (4,860,419)</b>	<b>\$ 6,364,504</b>	<b>\$ 4,631,156</b>
<b>WATER FUND</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premium	\$ 542,459	\$ -	\$ (72,667)	\$ 469,792	\$ -
Bonds payable					
Guaranteed Water Revenue Bonds					
Series of 2019	6,590,000	-	(1,505,000)	5,085,000	1,580,000
Series of 2020	-	1,300,000	(1,000)	1,299,000	1,000
	<u>7,132,459</u>	<u>1,300,000</u>	<u>(1,578,667)</u>	<u>6,853,792</u>	<u>1,581,000</u>
<b>TOTAL WATER FUND BONDS AND NOTES PAYABLE</b>	<b>\$ 7,132,459</b>	<b>\$ 1,300,000</b>	<b>\$ (1,578,667)</b>	<b>\$ 6,853,792</b>	<b>\$ 1,581,000</b>
<b>OTHER LIABILITIES</b>					
Compensated absences	68,129	34,753	-	102,882	-
Net Pension liability	1,310,774	-	(865,131)	445,643	-
	<u>1,378,903</u>	<u>34,753</u>	<u>(865,131)</u>	<u>548,525</u>	<u>-</u>
<b>TOTAL WATER FUND OTHER LIABILITIES</b>	<b>\$ 1,378,903</b>	<b>\$ 34,753</b>	<b>\$ (865,131)</b>	<b>\$ 548,525</b>	<b>\$ -</b>
<b>TOTAL WATER FUND LONG-TERM LIABILITIES</b>	<b>\$ 8,511,362</b>	<b>\$ 1,334,753</b>	<b>\$ (2,443,798)</b>	<b>\$ 7,402,317</b>	<b>\$ 1,581,000</b>
<b>TOTALS SEWER AND WATER FUNDS</b>	<b>\$ 19,472,219</b>	<b>\$ 1,598,819</b>	<b>\$ (7,304,217)</b>	<b>\$ 13,766,821</b>	<b>\$ 6,212,156</b>

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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 \$2,260,000 as of December 31, 2020. 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, 2020, the value of the escrow account included in cash and investments held by the trustee was \$2,254,921. 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>
\$ <u>2,136,156</u>	\$ <u>2,136,156</u>	2021	7.05%

Bonds outstanding at gross maturity value are as follows:

TOTAL GROSS MATURITY VALUE OUTSTANDING AT DECEMBER 31, 2020	\$ 2,260,000
Discount	<u>(123,844)</u>
TOTAL ACCRETED VALUE AT DECEMBER 31, 2020	<u>\$ 2,136,156</u>



**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**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.

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>
\$ 350,000	\$ 58,213	2021	3.00%
360,000	47,713	2022	3.00%
370,000	36,913	2023	3.13%
385,000	25,350	2024	3.25%
<u>395,000</u>	<u>12,836</u>	2025	3.25%
<u>\$ 1,860,000</u>	<u>\$ 181,025</u>		

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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

**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>
\$ <u>2,145,000</u>	\$ <u>107,250</u>	2021	5.00%

**Water Revenue Bonds of 2019**

In 2019, the Authority issued Water Revenue Bonds of 2019, dated October 16, 2019, in the amount of \$6,590,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Ninth Supplemental Indenture dated November 14, 2019. 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 4.00% to 5.00% over the life of the bonds. The bonds will fully mature in December 2027. The bonds were issued to currently refund the remainder of the outstanding Water Revenue Bonds of 2007 and Water Revenue Bonds of 2012 of \$2,239,255 and \$4,995,000 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 \$22,393. 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 \$274,781 and a reduction of \$320,512 in future debt service payments.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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 December 15,</u>	<u>Interest Rate</u>
\$ 1,580,000	\$ 208,650	2021	5.00%
1,665,000	127,525	2022	5.00%
670,000	69,150	2023	5.00%
275,000	45,525	2024	5.00%
285,000	31,525	2025	5.00%
<u>610,000</u>	<u>24,600</u>	2026 to 2027	4.00%
<u>\$ 5,085,000</u>	<u>\$ 506,975</u>		

**Water Revenue Bonds of 2020**

In 2020, the Authority issued Water Revenue Bonds of 2020, dated September 15, 2020, in the amount of \$1,300,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Tenth Supplemental Indenture dated September 15, 2020. 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 1.01% over the life of the bonds. The bonds will fully mature in December 2024.

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing December 15,</u>	<u>Interest Rate</u>
\$ 1,000	\$ 13,120	2021	1.01%
1,000	13,110	2022	1.01%
1,054,000	13,100	2023	1.01%
<u>243,000</u>	<u>2,454</u>	2024	1.01%
<u>\$ 1,299,000</u>	<u>\$ 41,784</u>		

**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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE J - CAPITAL LEASE**

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.

The assets acquired through the capital leases are as follows:

Equipment	\$ 1,930,803
Accumulated depreciation	<u>(1,513,923)</u>
	<u>\$ 416,880</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>	
2021	\$ 104,831
2022	104,831
2023	104,831
2024	104,831
2025	<u>52,416</u>
	471,740
Amount representing interest	<u>(33,249)</u>
TOTAL PRESENT VALUE OF MINIMUM LEASE PAYMENT	<u>\$ 438,491</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE K - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables balances consist of the following at December 31, 2020:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>GOVERNMENTAL FUNDS</b>		
General Fund	\$ 23,834	\$ -
Grant Fund	<u>-</u>	<u>23,834</u>
	<u>\$ 23,834</u>	<u>\$ 23,834</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>
<b>GOVERNMENTAL FUNDS</b>		
General Fund	\$ 140,000	\$ -
Parking Lot Fund	-	40,000
Fire Fund	175,000	-
Capital Operating Fund	<u>-</u>	<u>275,000</u>
TOTAL GOVERNMENTAL FUNDS	<u>315,000</u>	<u>315,000</u>
<b>PROPRIETARY FUNDS</b>		
Sewer Fund	750,000	-
Sewer Collection Lines Fund	<u>-</u>	<u>750,000</u>
TOTAL PROPRIETARY FUNDS	<u>750,000</u>	<u>750,000</u>
TOTAL TRANSFERS	<u>\$ 1,065,000</u>	<u>\$ 1,065,000</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE L - 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 M - 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, 2020, was \$428,393.

**NOTE N - 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, 2020**

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**NOTE N - SEWER AGREEMENTS (Continued)**

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

<u>Year Ending</u> <u>December 31,</u>	
2021	\$ 2,660,463
2022	407,713
2023	406,913
2024	410,350
2025	<u>407,838</u>
	<u>\$ 4,293,277</u>

Payments made by the Borough to the Authority in 2020 were \$2,651,563.

**NOTE O - 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>2020</u>
Guaranteed Sewer Revenue Bonds	1991	\$ 2,136,156
Guaranteed Sewer Revenue Bonds	2012	1,860,000
Guaranteed Sewer Revenue Bonds	2016	2,145,000
Guaranteed Water Revenue Bonds	2019	5,085,000
Guaranteed Water Revenue Bonds	2020	1,299,000

The Borough has not made any payments on the above bond issues as guarantor.

**NOTE P - 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, 2020, which represent 8.2% of the total sewer operating revenues, were as follows:

Lower Pottsgrove Township	\$ 737,300
Upper Pottsgrove Township	171,863
West Pottsgrove Township	<u>307,222</u>
	<u>\$ 1,216,385</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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**NOTE Q - LEGAL COMPLIANCE**

For the year ended December 31, 2020, the Borough Grant Fund had a deficit fund balance of \$53,578 and the Borough Debt Service Fund had a deficit fund balance of \$18,531.

**NOTE R - 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 2020 was \$395,487.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 10,090,954	\$ 10,090,954	\$ 10,417,145	\$ 326,191
Intergovernmental	1,026,616	1,026,616	941,826	(84,790)
Charges for services	1,685,584	1,685,584	1,546,776	(138,808)
Fees, licenses and permits	473,180	513,180	477,467	(35,713)
Court costs and fines	160,000	180,000	128,990	(51,010)
Interest and rents	81,800	81,800	22,111	(59,689)
Miscellaneous	12,455	(28,045)	133,688	161,733
<b>TOTAL REVENUES</b>	<u>13,530,589</u>	<u>13,550,089</u>	<u>13,668,003</u>	<u>117,914</u>
<b>EXPENDITURES</b>				
General government	1,642,176	1,659,676	1,544,831	114,845
Public safety, police department	10,603,318	10,605,818	10,180,321	425,497
Public works				
Zoning	815,645	815,645	776,776	38,869
Highways	530,011	530,011	523,339	6,672
Conservation and development	283,588	283,088	79,485	203,603
<b>TOTAL EXPENDITURES</b>	<u>13,874,738</u>	<u>13,894,238</u>	<u>13,104,752</u>	<u>789,486</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(344,149)</u>	<u>(344,149)</u>	<u>563,251</u>	<u>907,400</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	1	1	26,301	26,300
Transfer to budgetary reserve	484,148	484,148	-	(484,148)
Transfers out	(140,000)	(140,000)	(140,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>344,149</u>	<u>344,149</u>	<u>(113,699)</u>	<u>(457,848)</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	-	-	449,552	449,552
<b>FUND BALANCE AT BEGINNING OF YEAR</b>				
	<u>4,267,723</u>	<u>4,267,723</u>	<u>4,267,723</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>				
	<u>\$ 4,267,723</u>	<u>\$ 4,267,723</u>	<u>\$ 4,717,275</u>	<u>\$ 449,552</u>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**URBAN TRANSIT FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 3,811,233	\$ 3,811,233	\$ 3,811,233	\$ -
Charges for services	240,705	240,705	240,705	-
Miscellaneous	945	945	945	-
TOTAL REVENUES	<u>4,052,883</u>	<u>4,052,883</u>	<u>4,052,883</u>	<u>-</u>
EXPENDITURES				
Public works, other public works	<u>4,838,772</u>	<u>4,838,772</u>	<u>4,838,772</u>	<u>-</u>
DEFICIENCY REVENUES OVER EXPENDITURES	<u>(785,889)</u>	<u>(785,889)</u>	<u>(785,889)</u>	<u>-</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>898,075</u>	<u>898,075</u>	<u>898,075</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 112,186</u>	<u>\$ 112,186</u>	<u>\$ 112,186</u>	<u>\$ -</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**REFUSE FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 50,000	\$ 50,000	\$ -	\$ (50,000)
Charges for services	2,778,591	2,778,591	2,803,905	25,314
Fees, licenses and permits	14,000	14,000	16,950	2,950
Interest and rents	18,100	18,100	12,727	(5,373)
Miscellaneous	5,102	5,102	7,470	2,368
TOTAL REVENUES	<u>2,865,793</u>	<u>2,865,793</u>	<u>2,841,052</u>	<u>(24,741)</u>
EXPENDITURES				
Public works, sanitation	<u>3,164,995</u>	<u>3,164,995</u>	<u>3,388,183</u>	<u>(223,188)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(299,202)</u>	<u>(299,202)</u>	<u>(547,131)</u>	<u>(247,929)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to budgetary reserve	<u>299,202</u>	<u>299,202</u>	<u>-</u>	<u>(299,202)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>299,202</u>	<u>299,202</u>	<u>-</u>	<u>(299,202)</u>
NET CHANGE IN FUND BALANCE	-	-	(547,131)	(547,131)
FUND BALANCE AT BEGINNING OF YEAR	<u>3,665,074</u>	<u>3,665,074</u>	<u>3,665,074</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,665,074</u>	<u>\$ 3,665,074</u>	<u>\$ 3,117,943</u>	<u>\$ (547,131)</u>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**BOROUGH GRANT FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 2,257,705	\$ 2,257,705	\$ 859,835	\$ (1,397,870)
Interest and rents	-	-	127	127
Miscellaneous	-	-	4,880	4,880
<b>TOTAL REVENUES</b>	<u>2,257,705</u>	<u>2,257,705</u>	<u>864,842</u>	<u>(1,392,863)</u>
<b>EXPENDITURES</b>				
Public safety, police	-	-	160,371	(160,371)
Public works, highways	-	-	60,965	(60,965)
Culture and recreation, recreation	275,000	275,000	65,984	209,016
Conservation and development	1,982,705	1,982,705	540,143	1,442,562
<b>TOTAL EXPENDITURES</b>	<u>2,257,705</u>	<u>2,257,705</u>	<u>827,463</u>	<u>1,430,242</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>37,379</u>	<u>37,379</u>
<b>FUND DEFICIT AT BEGINNING OF YEAR</b>	<u>(90,957)</u>	<u>(90,957)</u>	<u>(90,957)</u>	<u>-</u>
<b>FUND DEFICIT AT END OF YEAR</b>	<u>\$ (90,957)</u>	<u>\$ (90,957)</u>	<u>\$ (53,578)</u>	<u>\$ 37,379</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LIQUID FUELS FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 622,000	622,000	627,060	5,060
Interest and rents	15,000	15,000	5,190	(9,810)
TOTAL REVENUES	<u>637,000</u>	<u>637,000</u>	<u>632,250</u>	<u>(4,750)</u>
EXPENDITURES				
Public works, highways	<u>1,163,000</u>	<u>1,163,000</u>	<u>96,169</u>	<u>1,066,831</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(526,000)	(526,000)	536,081	1,062,081
OTHER FINANCING SOURCES				
Transfer from budgetary reserve	<u>526,000</u>	<u>526,000</u>	<u>-</u>	<u>(526,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>526,000</u>	<u>526,000</u>	<u>-</u>	<u>(526,000)</u>
NET CHANGE IN FUND BALANCE	-	-	536,081	536,081
FUND BALANCE AT BEGINNING OF YEAR	<u>722,466</u>	<u>722,466</u>	<u>722,466</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 722,466</u>	<u>\$ 722,466</u>	<u>\$ 1,258,547</u>	<u>\$ 536,081</u>

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
YEAR ENDED DECEMBER 31, 2020

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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, 2020**

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**NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended December 31, 2020, expenditures exceeded appropriations in the following:

	Refuse Fund	Grant Fund
	<u>          </u>	<u>          </u>
Public safety, Police department	\$ -	\$ 160,371
Public works, highways	-	60,965
Public works, sanitation	<u>223,749</u>	<u>-</u>
	<u>\$ 223,749</u>	<u>\$ 221,336</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 SEVEN YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 718,746	\$ 691,102	\$ 684,699
Interest	2,580,492	2,177,586	1,941,276
Changes for experience	-	501,514	-
Changes for assumptions	-	-	-
Benefit payments	<u>(2,014,828)</u>	<u>(1,484,004)</u>	<u>(1,402,051)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	1,284,410	1,886,198	1,223,924
Total pension liability, beginning	<u>31,613,959</u>	<u>29,727,761</u>	<u>28,503,837</u>
 TOTAL PENSION LIABILITY, ENDING (a)	 <u>\$ 32,898,369</u>	 <u>\$ 31,613,959</u>	 <u>\$ 29,727,761</u>
 PLAN FIDUCIARY NET POSITION			
Contributions			
Employer	\$ 1,784,671	\$ 1,521,616	\$ 1,008,762
Member	267,756	217,416	205,243
Net investment income (loss)	4,234,952	4,310,226	(1,306,199)
Benefit payments, including refunds of member contributions	<u>(2,014,828)</u>	<u>(1,484,004)</u>	<u>(1,402,051)</u>
Administrative expenses	<u>(22,200)</u>	<u>(18,010)</u>	<u>(3,950)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	4,250,351	4,547,244	(1,498,195)
Plan fiduciary net position, beginning	<u>25,808,884</u>	<u>21,261,640</u>	<u>22,759,835</u>
 PLAN FIDUCIARY NET POSITION, ENDING (b)	 <u>\$ 30,059,235</u>	 <u>\$ 25,808,884</u>	 <u>\$ 21,261,640</u>
 NET PENSION LIABILITY, ENDING (a)-(b)	 <u>\$ 2,839,134</u>	 <u>\$ 5,805,075</u>	 <u>\$ 8,466,121</u>
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	 <u>91.37%</u>	 <u>81.64%</u>	 <u>71.52%</u>
 COVERED PAYROLL	 <u>\$ 4,541,571</u>	 <u>\$ 4,287,824</u>	 <u>\$ 4,058,778</u>
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	 <u>62.51%</u>	 <u>135.39%</u>	 <u>208.59%</u>

### NOTE 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.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$	658,364	\$ 659,676	\$ 640,962	\$ 429,517
	1,889,022	1,718,460	1,598,743	1,468,395
	911,428	-	549,157	-
	566,171	-	(823,998)	-
	<u>(1,287,009)</u>	<u>(1,054,439)</u>	<u>(1,123,544)</u>	<u>(916,485)</u>
	2,737,976	1,323,697	841,320	981,427
	<u>25,765,861</u>	<u>24,442,164</u>	<u>23,600,844</u>	<u>22,619,417</u>
\$	<u><u>28,503,837</u></u>	<u><u>25,765,861</u></u>	<u><u>24,442,164</u></u>	<u><u>23,600,844</u></u>
\$	1,049,802	\$ 903,774	\$ 880,611	\$ 865,432
	230,779	210,020	199,230	190,437
	2,363,069	1,062,369	(919,895)	900,202
	(1,287,009)	(1,054,439)	(1,123,544)	(916,485)
	<u>(13,280)</u>	<u>(3,600)</u>	<u>(87,748)</u>	<u>-</u>
	2,343,361	1,118,124	(1,051,346)	1,039,586
	<u>20,416,474</u>	<u>19,298,350</u>	<u>20,349,696</u>	<u>19,310,110</u>
\$	<u><u>22,759,835</u></u>	<u><u>20,416,474</u></u>	<u><u>19,298,350</u></u>	<u><u>20,349,696</u></u>
\$	<u><u>5,744,002</u></u>	<u><u>5,349,387</u></u>	<u><u>5,143,814</u></u>	<u><u>3,251,148</u></u>
	<u>79.85%</u>	<u>79.24%</u>	<u>78.96%</u>	<u>86.22%</u>
\$	<u><u>4,108,474</u></u>	<u><u>3,794,267</u></u>	<u><u>3,726,783</u></u>	<u><u>3,784,157</u></u>
	<u>139.81%</u>	<u>140.99%</u>	<u>138.02%</u>	<u>85.91%</u>

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF POLICE PENSION PLAN CONTRIBUTIONS**  
**LAST SEVEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 1,784,671	\$ 1,521,616	\$ 1,008,762
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>(1,784,671)</u>	<u>(1,521,616)</u>	<u>(1,008,762)</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED PAYROLL	<u>\$ 4,541,571</u>	<u>\$ 4,287,824</u>	<u>\$ 4,058,778</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>39.30%</u>	<u>35.49%</u>	<u>24.85%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2019 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	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	11 years	12 years
Asset valuation method	Market value	Market value
Inflation	3.00%	3.00%
Salary increases	4.00%	4.00%
Investment rate of return	7.00%	7.00%
Postretirement cost of living increase	2.00%	2.00%
Retirement age	Normal retirement age	Normal retirement age
Mortality	IRS 2017 Static Table	IRS 2017 Static 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.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 1,049,802	\$ 903,774	\$ 880,611	\$ 865,432
<u>(1,049,802)</u>	<u>(903,774)</u>	<u>(880,611)</u>	<u>(865,432)</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
\$ <u>4,108,474</u>	\$ <u>3,794,267</u>	\$ <u>3,726,783</u>	\$ <u>3,784,157</u>
<u>25.55%</u>	<u>23.82%</u>	<u>23.63%</u>	<u>22.87%</u>

January 1, 2015

January 1, 2013

Entry age normal  
Level dollar, closed  
10 years  
Market value  
3.00%  
4.00%  
7.00%  
0.00%

Normal retirement age

RP 2000 Table

Entry age normal  
Level dollar, closed  
11 years  
Market value  
3.00%  
3.50%  
6.50%  
0.00%

Normal retirement age

UP1984 Table

**BOROUGH OF POTTSTOWN**  
SCHEDULE OF POLICE PENSION PLAN  
INVESTMENT RETURNS  
LAST SEVEN YEARS

---

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>17.10%</u>	<u>20.53%</u>	<u>-6.62%</u>

**NOTE 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.

---

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>11.54%</u>	<u>5.86%</u>	<u>-4.80%</u>	<u>5.90%</u>

# BOROUGH OF POTTSTOWN

## SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS LAST FIVE YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>TOTAL PENSION LIABILITY</b>			
Service cost	\$ 507,790	\$ 488,260	\$ 500,349
Interest	1,458,597	1,399,007	1,384,335
Changes for experience	-	(624,798)	-
Changes for assumptions	-	-	-
Benefit payments	<u>(1,147,589)</u>	<u>(832,452)</u>	<u>(1,211,709)</u>
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>			
	818,798	430,017	672,975
Total pension liability, beginning	<u>22,505,965</u>	<u>22,075,948</u>	<u>21,402,973</u>
<b>TOTAL PENSION LIABILITY, ENDING (a)</b>	<u><u>\$ 23,324,763</u></u>	<u><u>\$ 22,505,965</u></u>	<u><u>\$ 22,075,948</u></u>
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions			
Employer	\$ 1,320,150	\$ 904,870	\$ 326,988
Member	275,449	284,317	275,632
Net investment income	3,052,908	3,055,888	(1,085,041)
Benefit payments, including refunds of member			
Benefit payments, including refunds of member contributions	(1,147,589)	(832,452)	(1,211,709)
Administrative expenses	<u>-</u>	<u>(19,500)</u>	<u>(10,760)</u>
<b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>			
	3,500,918	3,393,123	(1,704,890)
Plan fiduciary net position, beginning	<u>18,442,239</u>	<u>15,049,116</u>	<u>16,754,006</u>
<b>PLAN FIDUCIARY NET POSITION, PLAN FIDUCIARY NET POSITION, ENDING (b)</b>	<u><u>\$ 21,943,157</u></u>	<u><u>\$ 18,442,239</u></u>	<u><u>\$ 15,049,116</u></u>
<b>NET PENSION LIABILITY, ENDING (a)-(b)</b>	<u><u>\$ 1,381,606</u></u>	<u><u>\$ 4,063,726</u></u>	<u><u>\$ 7,026,832</u></u>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>			
	<u>94.08%</u>	<u>81.94%</u>	<u>68.17%</u>
<b>COVERED PAYROLL</b>	<u><u>\$ 4,799,002</u></u>	<u><u>\$ 5,046,673</u></u>	<u><u>\$ 4,633,088</u></u>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL</b>	<u>28.79%</u>	<u>80.52%</u>	<u>151.67%</u>

### NOTE 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.

<u>2017</u>	<u>2016</u>
\$ 481,105	\$ 415,040
1,335,503	1,224,267
288,649	-
823,062	-
<u>(957,464)</u>	<u>(1,254,043)</u>
1,970,855	385,264
<u>19,432,118</u>	<u>19,046,854</u>
\$ <u><u>21,402,973</u></u>	\$ <u><u>19,432,118</u></u>
\$ 343,074	\$ 295,227
298,909	315,396
923,562	922,590
(957,464)	(1,254,043)
<u>(16,970)</u>	<u>(3,848)</u>
591,111	275,322
<u>16,162,895</u>	<u>15,887,573</u>
\$ <u><u>16,754,006</u></u>	\$ <u><u>16,162,895</u></u>
\$ <u><u>4,648,967</u></u>	\$ <u><u>3,269,223</u></u>
<u>78.28%</u>	<u>83.18%</u>
\$ <u><u>4,914,197</u></u>	\$ <u><u>4,612,354</u></u>
<u>94.60%</u>	<u>70.88%</u>



**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
**CONTRIBUTIONS**  
**LAST FIVE YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 1,320,150	\$ 904,870	\$ 326,952
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>1,320,150</u>	<u>904,870</u>	<u>326,988</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36)</u>
COVERED PAYROLL	<u>\$ 4,799,002</u>	<u>\$ 5,046,673</u>	<u>\$ 4,633,088</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>27.51%</u>	<u>17.93%</u>	<u>7.06%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2019 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	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	8 years	10 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	IRS 2017 Static Combined Table	IRS 2017 Static Combined 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.

---

<u>2017</u>	<u>2016</u>
\$ 343,074	\$ 295,227
<u>(343,074)</u>	<u>(295,227)</u>
\$ <u>          -</u>	\$ <u>          -</u>
\$ <u>4,914,197</u>	\$ <u>4,612,354</u>
<u>6.98%</u>	<u>6.40%</u>

January 1, 2015

Entry age normal  
Level dollar, closed  
9 years  
3.00%  
4.00%  
6.50%  
Normal retirement age  
RP2000 Table

**BOROUGH OF POTTSTOWN**

SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN

INVESTMENT RETURNS

LAST FIVE YEARS

---

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>16.80%</u>	<u>20.19%</u>	<u>-6.90%</u>

**NOTE 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.

---

2017

2016

5.57%

5.92%

# BOROUGH OF POTTSTOWN

## SCHEDULE OF THE COMPONENT UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST FIVE YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</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>445,643</u>	\$ <u>1,310,774</u>	\$ <u>2,266,537</u>
COVERED PAYROLL	\$ <u>1,352,116</u>	\$ <u>1,350,967</u>	\$ <u>1,144,012</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED PAYROLL	<u>32.96%</u>	<u>97.02%</u>	<u>198.12%</u>
THE FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>94.08%</u>	<u>81.94%</u>	<u>68.17%</u>

---

<u>2017</u>	<u>2016</u>
<u>32.26%</u>	<u>32.26%</u>
\$ <u>1,499,546</u>	\$ <u>1,054,503</u>
\$ <u>1,585,097</u>	\$ <u>1,487,945</u>
<u>94.60%</u>	<u>70.88%</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 FOUR FISCAL YEARS

	2020	2019	2018
TOTAL OPEB LIABILITY			
Service cost	\$ 1,438,665	\$ 1,223,656	\$ 1,424,532
Interest	1,278,509	1,212,412	1,107,333
Changes of benefit terms	18,132	-	71,815
Differences between expected and actual experience	(6,227,664)	-	(691,880)
Changes of assumptions	1,896,331	2,280,845	(3,071,918)
Benefit payments	(639,254)	(532,337)	(519,175)
NET CHANGE IN TOTAL OPEB LIABILITY	(2,235,281)	4,184,576	(1,679,293)
Total OPEB liability, beginning	32,820,314	28,635,738	30,315,031
TOTAL OPEB LIABILITY, ENDING (a)	\$ <u>30,585,033</u>	\$ <u>32,820,314</u>	\$ <u>28,635,738</u>
PLAN FIDUCIARY NET POSITION			
Contributions			
Employer	\$ 889,254	\$ 782,337	\$ 769,175
Member	76,465	76,393	76,788
Net investment income	367,082	325,048	(77,635)
Benefit payments	(639,254)	(532,337)	(519,175)
Administrative expense	(4,877)	(4,108)	(8,294)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	688,670	647,333	240,859
Plan fiduciary net position, beginning	2,419,391	1,772,058	1,531,199
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ <u>3,108,061</u>	\$ <u>2,419,391</u>	\$ <u>1,772,058</u>
NET OPEB LIABILITY, ENDING (a)-(b)	\$ <u>27,476,972</u>	\$ <u>30,400,923</u>	\$ <u>26,863,680</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	<u>10.16%</u>	<u>7.37%</u>	<u>6.19%</u>
COVERED PAYROLL	\$ <u>8,436,366</u>	\$ <u>9,316,614</u>	\$ <u>9,316,614</u>
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u>325.70%</u>	<u>326.31%</u>	<u>288.34%</u>

### NOTES TO SCHEDULE

Benefit changes-A temporary health reimbursement account was established for certain qualified retirees in 2017.

Benefit changes - A new HRA retirement incentive is offered to employees between October 4, 2019 and April 1, 2020.

Changes of assumptions - In 2019, the discount rate changed from 4.10% to 3.77%. Trend assumption was updated.

Changes of assumptions - In 2020, the discount rate changed from 3.77% to 3.36%. The withdrawal rates for all groups were updated to Table D-1. The percentages of males assumed to cover spouse was lowered from 90% to 80%.

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

---

2017  
\$ 1,364,951  
1,037,956  
-  
-  
-  
(458,872)  
1,944,035  
28,370,996  
\$ 30,315,031

\$ 708,872  
75,304  
123,929  
(458,872)  
(13,370)  
435,863  
1,095,337

\$ 1,531,200

\$ 28,783,831

5.05%

\$ 8,952,740

321.51%



**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT**  
**PLAN CONTRIBUTIONS**  
**LAST FOUR FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
STATUTORILY REQUIRED CONTRIBUTION	\$ 639,254	\$ 532,337	\$ 519,175
CONTRIBUTIONS IN RELATION TO THE STATUTORILY REQUIRED CONTRIBUTION	<u>639,254</u>	<u>532,337</u>	<u>519,175</u>
CONTRIBUTION DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED PAYROLL	<u>\$ 8,436,366</u>	<u>\$ 9,316,614</u>	<u>\$ 9,316,614</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>7.58%</u>	<u>5.71%</u>	<u>5.57%</u>

**NOTES TO SCHEDULE**

Valuation date: January 1, 2020 January 1, 2018

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	6.50%	3.52%
Retirement age	Normal retirement age	Normal retirement age
Mortality	IRS 2017 Static Combined Table for Small Plans	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.

---

2017

\$ 534,176

534,176

\$ -

\$ 8,952,740

5.97%

January 1, 2016

Entry age normal  
Level dollar, open  
30 years  
Market value  
5.25%  
4.0%  
3.52%  
Normal  
retirement age  
IRS 2017 Static  
Combined Table  
for Small Plans

# **BOROUGH OF POTTSTOWN**

## **SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT PLAN INVESTMENT RETURNS LAST FOUR FISCAL YEARS**

---

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE (OPEB TRUST)	<u>14.70%</u>	<u>16.66%</u>	<u>-3.34%</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE (POLICE RETIREMENT TRUST)	<u>14.75%</u>	<u>16.87%</u>	<u>-3.35%</u>

### **NOTE 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.

---

2017

8.71%

6.01%

## **SUPPLEMENTARY INFORMATION SECTION**

**BOROUGH OF POTTSTOWN**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2020**

	Nonmajor Special		
	Airport Fund	Street Lighting Fund	Recreation Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 325,996	\$ 190,826	\$ 150,164
Receivables			
Accounts, net	-	206	648
Taxes	-	8,665	27,203
Prepaid expenditures	16,213	-	25,263
	<u>16,213</u>	<u>-</u>	<u>25,263</u>
TOTAL ASSETS	<u>\$ 342,209</u>	<u>\$ 199,697</u>	<u>\$ 203,278</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,819	\$ 19,741	\$ 51,968
Accrued liabilities	267	294	9,006
Unearned revenue	8,753	-	-
	<u>8,753</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>10,839</u>	<u>20,035</u>	<u>60,974</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	-	8,414	26,414
	<u>-</u>	<u>8,414</u>	<u>26,414</u>
<b>FUND BALANCES</b>			
Nonspendable, prepaid expenditures	16,213	-	25,263
Restricted for			
Liquid fuels	-	-	-
Assigned to			
Airport improvement	315,157	-	-
Capital projects	-	-	-
Parking lot program purposes	-	-	-
Recreation	-	-	90,627
Street lighting	-	171,248	-
Fire services	-	-	-
Library	-	-	-
Unassigned	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>331,370</u>	<u>171,248</u>	<u>115,890</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 342,209</u>	<u>\$ 199,697</u>	<u>\$ 203,278</u>

Revenue Funds

Fire Services Fund	Library Fund	Parking Lot Fund	Capital Operating Fund	Debt Service Fund	Total Other Governmental Funds
\$ 318,800	\$ 13,341	\$ 47,432	\$ 1,074,673	\$ 408	\$ 2,121,640
1,992	141	398	-	34	3,419
52,220	5,914	-	-	1,440	95,442
7,860	14,627	-	-	-	63,963
<u>\$ 380,872</u>	<u>\$ 34,023</u>	<u>\$ 47,830</u>	<u>\$ 1,074,673</u>	<u>\$ 1,882</u>	<u>\$ 2,284,464</u>
\$ 6,756	\$ -	\$ 1,510	\$ -	\$ 19,015	\$ 100,809
2,251	14	762	-	-	12,594
-	-	-	-	-	8,753
<u>9,007</u>	<u>14</u>	<u>2,272</u>	<u>-</u>	<u>19,015</u>	<u>122,156</u>
<u>50,707</u>	<u>5,742</u>	<u>-</u>	<u>-</u>	<u>1,398</u>	<u>92,675</u>
7,860	14,627	-	-	-	63,963
-	-	-	-	-	-
-	-	-	-	-	315,157
-	-	-	1,074,673	-	1,074,673
-	-	45,558	-	-	45,558
-	-	-	-	-	90,627
-	-	-	-	-	171,248
313,298	-	-	-	-	313,298
-	13,640	-	-	-	13,640
-	-	-	-	(18,531)	(18,531)
<u>321,158</u>	<u>28,267</u>	<u>45,558</u>	<u>1,074,673</u>	<u>(18,531)</u>	<u>2,069,633</u>
<u>\$ 380,872</u>	<u>\$ 34,023</u>	<u>\$ 47,830</u>	<u>\$ 1,074,673</u>	<u>\$ 1,882</u>	<u>\$ 2,284,464</u>

**BOROUGH OF POTTSTOWN****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2020**

		Nonmajor Special	
	Airport Fund	Street Lighting Fund	Recreation Fund
REVENUES			
Taxes	\$ -	\$ 253,484	\$ 800,953
Intergovernmental	30,000	-	-
Charges for services	170,710	-	35,521
Interest and rents	1,057	657	18,403
Miscellaneous	-	20,169	9,679
TOTAL REVENUES	<u>201,767</u>	<u>274,310</u>	<u>864,556</u>
EXPENDITURES			
General government	-	-	-
Public safety, fire department	-	-	-
Public works			
Highways	-	255,715	-
Other public works	118,354	-	-
Culture and recreation			
Recreation	-	-	926,334
Library	-	-	-
Capital projects	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>118,354</u>	<u>255,715</u>	<u>926,334</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	83,413	18,595	(61,778)
OTHER FINANCING SOURCES			
Proceeds from sale of capital assets	22,700	-	8,852
Transfers in	-	-	-
Transfers out	-	-	-
Contribution from Pottstown Borough Authority	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>22,700</u>	<u>-</u>	<u>8,852</u>
NET CHANGE IN FUND BALANCES	106,113	18,595	(52,926)
FUND BALANCES AT BEGINNING OF YEAR	<u>225,257</u>	<u>152,653</u>	<u>168,816</u>
FUND BALANCES AT END OF YEAR	<u>\$ 331,370</u>	<u>\$ 171,248</u>	<u>\$ 115,890</u>



Revenue Funds					
Fire Services Fund	Library Fund	Parking Lot Fund	Capital Operating Fund	Debt Service Fund	Total Other Governmental Funds
\$ 1,528,139	\$ 174,003	\$ -	\$ -	\$ 41,634	\$ 2,798,213
105,753	-	-	-	-	135,753
19,878	-	18,576	-	-	244,685
1,070	65	150	3,202	8	24,612
52,734	680	-	-	-	83,262
<u>1,707,574</u>	<u>174,748</u>	<u>18,726</u>	<u>3,202</u>	<u>41,642</u>	<u>3,286,525</u>
-	-	-	-	1,393	1,393
1,382,721	-	-	-	-	1,382,721
-	-	62,006	-	-	317,721
-	-	-	-	-	118,354
-	-	-	-	-	926,334
-	177,016	-	-	-	177,016
-	-	-	5,451	-	5,451
89,781	-	-	-	209,591	299,372
15,050	-	-	-	52,258	67,308
<u>1,487,552</u>	<u>177,016</u>	<u>62,006</u>	<u>5,451</u>	<u>263,242</u>	<u>3,295,670</u>
220,022	(2,268)	(43,280)	(2,249)	(221,600)	(9,145)
-	-	-	-	-	31,552
-	-	40,000	275,000	-	315,000
(175,000)	-	-	-	-	(175,000)
-	-	-	-	200,000	200,000
<u>(175,000)</u>	<u>-</u>	<u>40,000</u>	<u>275,000</u>	<u>200,000</u>	<u>371,552</u>
45,022	(2,268)	(3,280)	272,751	(21,600)	362,407
276,136	30,535	48,838	801,922	3,069	1,707,226
<u>\$ 321,158</u>	<u>\$ 28,267</u>	<u>\$ 45,558</u>	<u>\$ 1,074,673</u>	<u>\$ (18,531)</u>	<u>\$ 2,069,633</u>

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF WASTEWATER SYSTEM**  
**FINAL RECONCILIATION**  
**YEAR ENDED DECEMBER 31, 2020**

	Basis of Allocation	Annual Cost 1/1/2020 - 12/31/2020	Less: Lower Pottsgrove
<b>Annual System Costs</b>			
Wastewater Treatment Administration	A/B	\$ 3,993,647	\$ 1,242,620 (1), (2), (3)
Legislative Body	A/B	10,877	3,552
Executive	A/B	73,561	24,020
Auditing Services/Accounting	A/B	242,794	47,522 (4)
Legal	A/B	47,054	10,900 (6)
Human Resources	A/B	78,382	25,595
IT-Web Network Services	A/B	65,694	19,320 (5)
Engineering	A/B	246,657	12,326 (7)
General Gov. Bldg. and Plant	A/B	74,529	24,336
Public Works	A/B	106,717	34,847
Miscellaneous	A/B	5	2
Pension Expense	A/B	249,376	81,431
Insurance	A/B	67,011	21,882
Employee Benefits	A/B	1,894	619
		<u>1,264,551</u>	<u>306,352</u>
<b>Sewer Lines</b>			
Porter Road Pump Station	C	15,936	-
Electric-Pump Stations	B	27,183	-
Maint. and Repairs Sewer Lines	B	134,576	- (8)
Maint. Of Meters	B	18	6
Elec. Flow Meter	B	654	214
		<u>15,936</u>	<u>214</u>
<b>Total System Costs</b>		<u>5,436,565</u>	<u>1,549,192</u>
<b>Deductions-Revenue</b>			
Cell Tower Rent	A/B	27,450	8,964
Violations, Inspections, Permits	A/B	4,835	1,579
Sewer Bulk Collection	A/B	2,371,338	774,333
Waste Mgmt.-Leachate	A/B	113,079	36,925
MIPP	A/B	13,382	4,370
Energy Capacity Payments	A/B	-	-
Scrap Sales	A/B	-	-
Refund-RE Taxes-Cell Tower	A/B	5,779	1,887
Refund - Current Year Expenses	A/B	12,293	4,014
Refund - Acc/Liab. Claim Pymnt	A/B	-	-
		<u>2,548,156</u>	<u>832,072</u>
<b>Total Deductions-Revenue</b>		<u>2,548,156</u>	<u>832,072</u>
<b>Net System Costs</b>		<u>\$ 2,888,409</u>	<u>717,120</u>
Final Allocation %		100%	24.83%
2020 Estimated Payments			<u>513,024</u>
Due to (from) Borough			<u>\$ 204,096</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 = \$152,305 & WPT = \$151,017
- (2) Excludes cost associated with the Memorial Park pumping station - LPT & UPT = \$33,179
- (3) 100% of cost associated with the Circle of Progress pumping station allocated to PT = \$2,733
- (4) Excludes \$97,261 related to billing and collections
- (5) Excludes \$6,526 of Dallas Data billing charges
- (6) Excludes \$13,673 of legal expenses which were specific to PBA
- (7) Excludes \$208,911 of engineering expenses which were specific to PBA
- (8) Excludes \$134,576 for Borough sewer lines repairs

<u>Net Cost</u>	<u>Upper Pottsgrove</u>	<u>West Pottsgrove</u>	<u>Pottstown</u>
\$ <u>2,751,027</u>	\$ <u>270,290</u> (2)	\$ <u>388,952</u> (1)	\$ <u>2,091,785</u>
7,325	731	1,107	5,487
49,541	4,943	7,484	37,114
195,272	19,482	29,499	146,291
36,154	2,243 (6)	3,396 (6)	30,515
52,787	5,267	7,974	39,546
46,374	3,976	6,020	36,378
234,331	2,536 (7)	3,840 (7)	227,955
50,193	5,008	7,582	37,603
71,870	7,170	10,857	53,843
3	-	-	3
167,945	16,756	25,371	125,818
45,129	4,503	6,818	33,808
1,275	127	193	955
<u>958,199</u>	<u>72,742</u>	<u>110,141</u>	<u>775,316</u>
15,936	-	-	15,936
27,183	-	13,591	13,592
134,576	- (8)	- (8)	134,576
12	1	3	8
440	44	99	297
<u>3,887,373</u>	<u>343,077</u>	<u>512,786</u>	<u>3,031,510</u>
18,486	1,844	2,793	13,849
3,256	325	492	2,439
1,597,005	159,333	241,253	1,196,419
76,154	7,598	11,504	57,052
9,012	899	1,361	6,752
-	-	-	-
-	-	-	-
3,892	388	588	2,916
8,279	826	1,251	6,202
-	-	-	-
<u>1,716,084</u>	<u>171,213</u>	<u>259,242</u>	<u>1,285,629</u>
\$ <u><u>2,171,289</u></u>	<u>171,864</u>	<u>253,544</u>	\$ <u><u>1,745,881</u></u>
	5.95%	8.78%	60.44%
	<u>99,296</u>	<u>216,740</u>	
	\$ <u><u>72,568</u></u>	\$ <u><u>36,804</u></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, 2020, 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 September 27, 2021.

***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, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs, that we considered to be a material weakness (2020-001).

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*.

### ***Borough of Pottstown's Response to Findings***

The Borough of Pottstown's responses to the findings identified in our audit are described in the corrective action plan. The Borough of Pottstown's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Limerick, Pennsylvania  
September 27, 2021

***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, 2020. 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

***Basis for Qualified Opinion on Federal Transit Grants (Assistance Listing #20.507)***

As described in the accompanying schedule of findings and questioned costs, the Borough of Pottstown, did not comply with the requirements regarding CFDA 20.507 Federal Transit Grants as described in finding number 2020-002 for Standards for Program Financial Management System. Compliance with such requirements is necessary, in our opinion, for the Borough of Pottstown to comply with the requirements applicable to that program.

***Qualified Opinion on Federal Transit Grants (Assistance Listing #20.507)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 20.507 Federal Transit Grants for the year ended December 31, 2020.

***Other Matters***

The Borough of Pottstown's response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. 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.

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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2020-002, Standards for Program Financial Management System to be a material weakness.

The Borough of Pottstown's responses to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and question 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 such 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.



Limerick, Pennsylvania  
September 27, 2021



**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL  
AWARD PROGRAMS AUDIT**

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Award Number	Expenditures	Passed Through to Subrecipients	
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Federal Transit Formula Grants	20.507	*	PA201901701	\$ 227,325	\$ -
Federal Transit Formula Grants	20.507	*	PA-2020-034-00	30,000	-
Total CFDA 20.507 (Federal Transit Cluster)			<u>257,325</u>	<u>-</u>	
<b>Passed through the Commonwealth of Pennsylvania</b>					
Airport Improvement Program	20.106		ABG-2020	30,000	-
			Boro of Pottstown-00006		
Airport Improvement Program	20.106		ABG-2020	11,638	-
			Boro of Pottstown-00055		
Total CFDA 20.106			<u>41,638</u>	<u>-</u>	
Highway Planning and Construction	20.205		WalkBik 102836	127,003	-
Highway Planning and Construction	20.205		PennDOT Traffic Signals	60,965	-
Highway Planning and Construction	20.205		0941194A	229	-
Total Highway Planning & Construction Cluster (Total CFDA 20.205)			<u>188,197</u>	<u>-</u>	
Alcohol Impaired Driving Countermeasures Grants	20.616		n/a	40,309	-
Total Highway Safety Cluster - CFDA 20.616			<u>40,309</u>	<u>-</u>	
TOTAL U.S. DEPARTMENT OF TRANSPORTATION FORWARD			<u>527,469</u>	<u>-</u>	
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Coronavirus Emergency Supplemental Funding Program	16.034		2020-VD-BX-1725	48,536	-
Bulletproof Vest Partnership Program	16.607		n/a	3,178	-
Public Safety Partnership and Community Policing Grants	16.710		n/a	35,282	-
TOTAL U.S. DEPARTMENT OF JUSTICE FORWARD			<u>\$ 86,996</u>	<u>\$ -</u>	

**BOROUGH OF POTTSTOWN**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Award Number	Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
<b>Passed through the County of Montgomery</b>				
Community Development Block Grants/Entitlement Grants	14.218	B-18-03-106	\$ 171,896	\$ -
Total CFDA 14.218			<u>171,896</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			171,896	-
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
TOTAL U.S. DEPARTMENT OF TRANSPORTATION FORWARDED			527,469	-
<b>U.S. DEPARTMENT OF JUSTICE</b>				
TOTAL U.S. DEPARTMENT OF JUSTICE FORWARDED			<u>86,996</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 786,361</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, 2020**

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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, 2020. 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 2020 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

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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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? **Yes**

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? **Yes**

Significant deficiencies identified not considered to be material weaknesses? **No**

Noncompliance material to financial statements noted? **Yes**

Type of auditors' report issued on compliance for major programs: **Qualified**

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? **Yes**

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2020-001 Lack of Internal Controls over the Preparation of the Schedule of Expenditures and Federal Awards**

**Criteria:** The Borough is required to prepare a Schedule of Expenditures of Federal Awards in accordance with the Uniform Grant Guidance. Internal controls must be in place to ensure the Borough properly reports all federal expenditures and related required information on this schedule.

**Condition:** The Borough failed to properly identify all federal grant expenditures and related information required by Uniform Grant Guidance to be reported in the 2020 Schedule of Expenditures of Federal Awards provided during audit fieldwork.

**Cause:** The Organization lacks a system of proper internal controls over the completeness of the information reported on the Schedule of Expenditures of Federal Awards.

**Effect:** The Schedule of Expenditures of Federal Awards did not include all federal program expenditures during the year.

**Recommendation:** We recommend the Borough institute procedures to ensure that an accurate and complete schedule of expenditures of federal awards is maintained. The Borough should prepare and update this schedule on an ongoing basis throughout the year.

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**2020-002 Standards for Program Financial Management System**

**Federal Program: Federal Transit Grants - CFDA #20.507**

**Federal Agency: U.S. Department of Transportation**

**Criteria:** The financial management requirements under 2 CFR 200.302 require each non-federal entity to maintain a financial management system providing identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through, if any.

**Condition:** The Borough of Pottstown does not have policies and procedures in place to accurately and completely account for federally funded activities separately from non-federally funded activities in their financial management system.

**Cause:** The Organization lacks a system of proper internal controls that encompasses all aspects of the specific written documentation requirements under 2 CFR 200.302. The revenues and expenditures associated with each federal grant program and CFDA No. are not separately identified within the Borough's accounting system.

**Effect:** The Borough is not in compliance with CFR 200.302 Financial Management, which requires federal program identification within its accounts.

**Recommendation:** We recommend the Borough institute a chart of accounts and journal entry templates that allow separate identification within the accounts for each federal grant award received and expended.

**Response:** The Borough will begin to maintain separate general ledger accounts for all federal grants. The account description will include the CFDA title and number, federal award identification number and year, name of the Federal agency, and name of the pass-through, if any.

**BOROUGH OF POTTSTOWN**  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2020

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None.





# Borough of Pottstown

Borough Hall, 100 East High Street  
Pottstown, Pennsylvania 19464-9525  
(610) 970-6500

## CORRECTIVE ACTION PLAN

August 27, 2021

Federal Audit Clearing House  
1201 E. 10<sup>th</sup> Street  
Jeffersonville, IN 47132

RE: Single Audit Period End 12-31-20 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 12-31-20 by the auditing firm of Maillie, LLP, 500 N. Lewis Road Limerick, PA 19468

### **Finding 2020-002 Standards for Program Financial Management System – Federal Transit Formula Grants CFDA #20.507**

- A. Utilize grant module for reporting in current accounting software to establish appropriate reporting for all grant funding.
- B. Within the above mentioned module, all grants will be named according to their CFDA title and number, and any other identifiers associated with the grants.
- C. Create additional general ledger line items for federal funded and non-federal funded activities to separate funding received.

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 610-970-6531.

Sincerely,

BOROUGH OF POTTSTOWN

Marley A. Boone  
Director of Finance