

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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2021

INTRODUCTORY SECTION

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2021

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13
Required Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability	28
Schedule of the Authority's Contributions	29

FINANCIAL SECTION

Independent Auditors' Report

To the Council Members
Pottstown Borough Authority
Pottstown, Pennsylvania

Opinion

We have audited the financial statements of the business-type activities and each major fund of the Pottstown Borough Authority (a component unit of the Borough of Pottstown), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Pottstown Borough Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Pottstown Borough Authority, as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pottstown Borough Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Pottstown Borough Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pottstown Borough Authority's ability to continue as a going concern for one year after the financial statement date.

To the Council Members
Pottstown Borough Authority
Pottstown, Pennsylvania

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pottstown Borough Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pottstown Borough Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8, Schedule of the Authority's Proportionate Share of the Net Pension Liability on page 28, and Schedule of the Authority's Contributions on page 29 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



Limerick, Pennsylvania
May 6, 2022

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

The Pottstown Borough Authority, hereafter referred to as the "Authority," hereby presents its financial statements developed in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, entitled *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments* (hereafter "GASB 34"), and its related standards. GASB 34 enhances information provided to the users of these financial statements. This section of the financial reporting package presents a discussion and analysis of the Authority's financial performance during the calendar year that ended on December 31, 2021. Please read it in conjunction with the Authority's financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

FINANCIAL ANALYSIS

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

Condensed Statements of Net Position

	December 31,		Variance	
	2021	2020	Dollars	%
ASSETS				
Current assets	\$ 2,039,823	\$ 2,697,065	\$ (657,242)	-24.4%
Restricted assets	7,731,225	10,047,771	(2,316,546)	-23.1%
Capital assets, net	57,757,062	58,581,720	(824,658)	-1.4%
TOTAL ASSETS	67,528,110	71,326,556	(3,798,446)	-5.3%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding, net of accumulated amortization	260,699	407,974	(147,275)	-36.1%
Deferred outflows of resources, pension	354,751	119,529	235,222	196.8%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	615,450	527,503	87,947	16.7%
LIABILITIES				
Current liabilities	2,448,757	7,098,820	(4,650,063)	-65.5%
Long-term liabilities	4,908,515	7,554,667	(2,646,152)	-35.0%
TOTAL LIABILITIES	7,357,272	14,653,487	(7,296,215)	-49.8%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources, pension	911,710	710,198	201,512	28.4%
NET POSITION				
Net investment in capital assets	59,026,978	55,819,168	3,207,810	5.7%
Unrestricted	847,600	671,206	176,394	26.3%
TOTAL NET POSITION	\$ 59,874,578	\$ 56,490,374	\$ 3,384,204	6.0%

Current Assets - The combined Water and Sewer Funds decreased by six-hundred fifty thousand dollars or 24.4% in 2021. Sewer cash and cash equivalents remained fairly stable; Water cash and cash equivalents decreased by \$.65 million mainly due to funding capital improvement projects. The sewer capital fund received \$1.085 million in contributions from the sewer operating fund to fund the capital improvement program and to pay arbitrage rebate on 1991 bonds.

Restricted Assets decreased by \$2 million or 23.1% due to the liquidation of investments to pay the debt service for the 1991 series sewer bonds.

Capital Assets decreased by \$.8 million or 1.4%. Construction in progress (CIP), net of projects completed and capitalized, decreased \$3.5 million which consisted of a \$4.3 million decrease in sewer CIP from the \$5 million Dryer which was capitalized and the start of sewer line replacement project, and a \$.8 million increase in water CIP as a result of the start of Water line replacement and continuation of the Air Scour project at the water plant. Accumulated depreciation increased by \$.5 million.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

Deferred Outflows of Resources increase from 2020 is attributed to the increase in deferred outflows of resources related to pension activity of approximately \$60,000 and the annual amortization of the deferred loss on refunding of approximately \$156,000.

Liabilities decreased by \$7.3 million or 49.8%. Current liabilities decreased by \$4.6 million as a result of the maturity of bonds. Long-term liabilities decreased \$2.6 million due to scheduled debt principal payments and amortization of bond premiums.

Deferred Inflows of Resources increased by \$.2 million as a result of recognizing the Authority's share of the deferred inflows of resources related to the non-uniformed pension plan.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	December 31,		Variance	
	2021	2020	Dollars	%
OPERATING REVENUES	\$ 10,391,089	\$ 9,996,407	\$ 394,682	3.9%
OPERATING EXPENSES				
General government	771,504	739,074	32,430	4.4%
Public works, water sanitation	3,262,249	2,737,616	524,633	19.2%
Benefits and insurance	198,735	159,849	38,886	24.3%
Depreciation and amortization	2,167,113	2,161,331	5,782	0.3%
Administration and general expenses	14,600	8,989	5,611	62.4%
Management fee	460,000	428,393	31,607	7.4%
TOTAL OPERATING EXPENSES	6,874,201	6,235,252	638,949	10.2%
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	6,292	98,886	(92,594)	-93.6%
Realized and unrealized gains on investments	-	24,070	(24,070)	-100.0%
Capital grants and contributions	-	238,937	(238,937)	-100.0%
Bond issue costs	-	(54,091)	54,091	-100.0%
Increase in accretion on bonds	(264,066)	(264,066)	-	0.0%
Interest expense	(764,448)	(544,881)	(219,567)	-40.3%
Insurance recoveries	3,683	-	3,683	0.0%
Contribution from Borough sewer operating fund	1,085,855	650,000	435,855	67.1%
Contribution to Borough public works facility	(200,000)	(200,000)	-	0.0%
TOTAL NONOPERATING REVENUES (EXPENSES)	(132,684)	(51,145)	(81,539)	-159.4%
CHANGE IN NET POSITION	\$ 3,384,204	\$ 3,710,010	\$ (325,806)	-8.8%

Operating Revenues increased by \$.4 million or 4%. Water collections increased by \$.2 million due to a water rate increase enacted in January 2021. Bulk water sales increased slightly, and Penalties and Interest increased due to reinstating collection activity that was suspended due to the COVID-19 pandemic. Royalties and other rentals increased slightly and consist of rentals received for cell phone towers located on the Authority's water storage tanks. Revenue from Water connection and tapping fees decreased slightly in 2021.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

Total Operating Expenses increased by \$.6 million in 2021 or 10.2%. General Governmental Expense increased by \$.03 million or 4.4%. Public works, water sanitation expense increased by \$.5 million or 19.2% mostly as a result of overall higher repair and maintenance expenses at the water and wastewater treatment plants. Benefits and insurance are \$.04 million higher in 2021 due to increase in pension MMO.

Nonoperating Revenues (Expenses) decreased by \$.08 million or 159% in 2021. Capital grants and contributions decreased by \$.2 million due to lower capital project contributions from the three townships that participate in the cost sharing of the sewer plant. The contribution from the sewer operating fund to fund capital projects increased by \$.4 million in 2021. During 2021, the seventh of ten \$.2 million annual contributions was made to the Borough for the public works facility.

Capital Assets and Long-Term Debt

During 2021, total capital spending for sewer projects was \$.7 million and \$1.4 million for water capital projects.

The Authority generally intends to fund capital spending with internally generated cash and no additional borrowings. However due to a strict compliance deadline on an unplanned DEP mandate, a \$1.2 million LT2 Compliance UV project was started at the Water plant in 2020. Capital funding was not adequate, so a short-term near -zero percent interest bank loan was obtained to fund this project. The UV project is still in progress through 2021.

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

Water

Ongoing water main replacements (current program started 2021)	\$1,000,000
Air Scour Upgrade/Instrumentation	\$1,400,000
LT2 Compliance UV	\$1,200,000

Sewer

Retire existing dryer and replace with new technology (completed in 2021)	\$4,900,000
Ongoing sewer main replacement (current program started 2021)	\$1,000,000
Hydraulic bypass at WWTP (scheduled for 2022)	\$230,000

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and cash equivalents	\$ 27,148	\$ 547,533	\$ 574,681
Prepaid expenses	-	250,973	250,973
Trade receivables, net	-	1,213,869	1,213,869
Other receivables, net	-	300	300
TOTAL CURRENT ASSETS	<u>27,148</u>	<u>2,012,675</u>	<u>2,039,823</u>
CASH, restricted			
Cash and cash equivalents	<u>3,624,238</u>	<u>4,106,987</u>	<u>7,731,225</u>
CAPITAL ASSETS			
Land	36,650	330,179	366,829
Construction in progress	526,861	1,587,067	2,113,928
Buildings and building improvements	39,922,109	-	39,922,109
Machinery and equipment	1,480,096	1,213,621	2,693,717
Infrastructure	13,515,561	43,131,774	56,647,335
Accumulated depreciation	<u>(25,492,948)</u>	<u>(18,493,908)</u>	<u>(43,986,856)</u>
TOTAL CAPITAL ASSETS	<u>29,988,329</u>	<u>27,768,733</u>	<u>57,757,062</u>
TOTAL ASSETS	<u>33,639,715</u>	<u>33,888,395</u>	<u>67,528,110</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding, net of accumulated amortization	24,832	235,867	260,699
Deferred outflows of resources, pension activity	<u>-</u>	<u>354,751</u>	<u>354,751</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>24,832</u>	<u>590,618</u>	<u>615,450</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 33,664,547</u>	<u>\$ 34,479,013</u>	<u>\$ 68,143,560</u>

See accompanying notes to the basic financial statements.

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 255,139	\$ 255,139
Accrued interest	7,908	8,011	15,919
Unearned revenue	-	151,699	151,699
Current portion of bonds payable	360,000	1,666,000	2,026,000
TOTAL CURRENT LIABILITIES	<u>367,908</u>	<u>2,080,849</u>	<u>2,448,757</u>
LONG-TERM LIABILITIES			
Unamortized bond premiums, net	11,884	397,124	409,008
Bonds payable, long-term portion	1,150,000	3,137,000	4,287,000
Net pension liability	-	101,790	101,790
Compensated absences	-	110,717	110,717
TOTAL LONG-TERM LIABILITIES	<u>1,161,884</u>	<u>3,746,631</u>	<u>4,908,515</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	<u>-</u>	<u>911,710</u>	<u>911,710</u>
NET POSITION			
Net investment in capital assets	32,115,515	26,911,463	59,026,978
Unrestricted	19,240	828,360	847,600
TOTAL NET POSITION	<u>32,134,755</u>	<u>27,739,823</u>	<u>59,874,578</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 33,664,547</u>	<u>\$ 34,479,013</u>	<u>\$ 68,143,560</u>

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Rental income, sewer system	\$ 2,660,463	\$ -	\$ 2,660,463
Charges for services	-	7,230,741	7,230,741
Royalties and other rentals	-	251,065	251,065
Grants and contributions	<u>248,820</u>	<u>-</u>	<u>248,820</u>
TOTAL OPERATING REVENUES	<u>2,909,283</u>	<u>7,481,806</u>	<u>10,391,089</u>
OPERATING EXPENSES			
General government	-	771,504	771,504
Public works, water sanitation	-	3,262,249	3,262,249
Benefits and insurance	-	198,735	198,735
Depreciation and amortization	1,042,921	1,124,192	2,167,113
Administrative and general	5,113	9,487	14,600
Management fees	<u>-</u>	<u>460,000</u>	<u>460,000</u>
TOTAL OPERATING EXPENSES	<u>1,048,034</u>	<u>5,826,167</u>	<u>6,874,201</u>
OPERATING INCOME	<u>1,861,249</u>	<u>1,655,639</u>	<u>3,516,888</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	5,426	866	6,292
Increase in accretion of bonds	(123,844)	-	(123,844)
Interest expense	(686,373)	(218,297)	(904,670)
Insurance recoveries	-	3,683	3,683
Contribution from Borough sewer operating fund	1,085,855	-	1,085,855
Contribution to Borough public works facility	<u>(100,000)</u>	<u>(100,000)</u>	<u>(200,000)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>181,064</u>	<u>(313,748)</u>	<u>(132,684)</u>
CHANGE IN NET POSITION	2,042,313	1,341,891	3,384,204
NET POSITION AT BEGINNING OF YEAR	<u>30,092,442</u>	<u>26,397,932</u>	<u>56,490,374</u>
NET POSITION AT END OF YEAR	<u>\$ 32,134,755</u>	<u>\$ 27,739,823</u>	<u>\$ 59,874,578</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ -	\$ 7,610,820	\$ 7,610,820
Cash receipts for rental of sewer system	2,909,283	-	2,909,283
Cash paid to suppliers	(5,113)	(4,160,309)	(4,165,422)
Cash paid to employees	-	(1,360,266)	(1,360,266)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,904,170</u>	<u>2,090,245</u>	<u>4,994,415</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interest paid on bonds	(705,890)	(218,086)	(923,976)
Contributions (to) from Borough	985,855	(100,000)	885,855
Principal paid on bonds	(4,755,000)	(1,581,000)	(6,336,000)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(4,475,035)</u>	<u>(1,899,086)</u>	<u>(6,374,121)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	(666,861)	(812,453)	(1,479,314)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(666,861)</u>	<u>(812,453)</u>	<u>(1,479,314)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	5,426	866	6,292
Sale of investments	2,254,921	-	2,254,921
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,260,347</u>	<u>866</u>	<u>2,261,213</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,621	(620,428)	(597,807)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,628,765</u>	<u>5,274,948</u>	<u>8,903,713</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,651,386</u>	<u>\$ 4,654,520</u>	<u>\$ 8,305,906</u>
CASH AND CASH EQUIVALENTS COMPRISED OF			
Current	\$ 27,148	\$ 547,533	\$ 574,681
Restricted	<u>3,624,238</u>	<u>4,106,987</u>	<u>7,731,225</u>
	<u>\$ 3,651,386</u>	<u>\$ 4,654,520</u>	<u>\$ 8,305,906</u>

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 1,861,249	\$ 1,655,639	\$ 3,516,888
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,042,921	1,124,192	2,167,113
Pension expense	-	(377,563)	(377,563)
(Increase) decrease in			
Prepaid expenses	-	(50,957)	(50,957)
Receivables	-	172,317	172,317
Increase (decrease) in			
Accounts payable and accrued expenses	-	(457,936)	(457,936)
Compensated absences	-	7,834	7,834
Unearned revenue	-	17,019	17,019
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,904,170</u>	<u>\$ 2,090,245</u>	<u>\$ 4,994,415</u>

See accompanying notes to the basic financial statements.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE A - NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Reporting Entity

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

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

Basis of Accounting

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

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021

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

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

Cash and Cash Equivalents

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

Capital Assets

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

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

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

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

Cash and Investments Held by Trustee, Restricted

Restricted cash and cash equivalents of \$7,731,225 represents assets established for specific purposes and uses under the Trust Indentures, including debt service, maintenance, capital expenditures and trust administrative expenses.

Investments

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

Revenues and Receivables

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

Net Position

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

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

Use of Estimates

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

Deferred Outflows/Inflows of Resources

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. The deferred inflow of resources related to pensions which is reported in the statement of net position and is the result of differences between expected and actual experience and the net difference between projected and actual earnings of pension plan investments.

NOTE B - DEPOSITS AND INVESTMENTS

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, 2021, \$750,000 of the Authority's bank balance was covered by federal depository insurance, and \$7,556,861 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>7,556,861</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.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable consisted of utilities, interest and other revenues. Accounts receivable and the related allowance for doubtful accounts as of December 31, 2021, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Water Fund			
Trade receivables	\$ <u>1,456,261</u>	\$ <u>242,392</u>	\$ <u>1,213,869</u>

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE D - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance January 1, 2021	Additions	Deletions	Balance December 31, 2021
SEWER FUND				
Capital assets not being depreciated				
Land	\$ 36,650	\$ -	\$ -	\$ 36,650
Construction in progress	4,848,592	666,861	(4,988,592)	526,861
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>4,885,242</u>	<u>666,861</u>	<u>(4,988,592)</u>	<u>563,511</u>
Capital assets being depreciated				
Buildings and building improvements	34,933,517	4,988,592	-	39,922,109
Machinery and equipment	1,480,096	-	-	1,480,096
Infrastructure	13,515,561	-	-	13,515,561
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>49,929,174</u>	<u>4,988,592</u>	<u>-</u>	<u>54,917,766</u>
Accumulated depreciation				
Buildings and building improvements	(20,100,385)	(849,243)	-	(20,949,628)
Machinery and equipment	(1,031,810)	(45,463)	-	(1,077,273)
Infrastructure	(3,210,482)	(255,565)	-	(3,466,047)
TOTAL ACCUMULATED DEPRECIATION	<u>(24,342,677)</u>	<u>(1,150,271)</u>	<u>-</u>	<u>(25,492,948)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>25,586,497</u>	<u>3,838,321</u>	<u>-</u>	<u>29,424,818</u>
SEWER FUND CAPITAL ASSETS, net	<u>\$ 30,471,739</u>	<u>\$ 4,505,182</u>	<u>\$ (4,988,592)</u>	<u>\$ 29,988,329</u>
WATER FUND				
Capital assets not being depreciated				
Land	\$ 330,179	\$ -	\$ -	\$ 330,179
Construction in progress	774,614	812,453	-	1,587,067
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>1,104,793</u>	<u>812,453</u>	<u>-</u>	<u>1,917,246</u>
Capital assets being depreciated				
Machinery and equipment	1,213,621	-	-	1,213,621
Infrastructure	43,131,774	-	-	43,131,774
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>44,345,395</u>	<u>-</u>	<u>-</u>	<u>44,345,395</u>
Accumulated depreciation				
Machinery and equipment	(1,056,057)	(27,100)	-	(1,083,157)
Infrastructure	(16,284,150)	(1,126,601)	-	(17,410,751)
TOTAL ACCUMULATED DEPRECIATION	<u>(17,340,207)</u>	<u>(1,153,701)</u>	<u>-</u>	<u>(18,493,908)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>27,005,188</u>	<u>(1,153,701)</u>	<u>-</u>	<u>25,851,487</u>
WATER FUND CAPITAL ASSETS, net	<u>\$ 28,109,981</u>	<u>\$ (341,248)</u>	<u>\$ -</u>	<u>\$ 27,768,733</u>

Depreciation expense was \$1,150,271 in the Sewer Fund and \$1,153,701 in the Water Fund for the year ended December 31, 2021.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE E - LONG-TERM LIABILITIES

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

	Balance Outstanding January 1, 2021	Additions	Deletions	Balance Outstanding December 31, 2021	Due Within One Year
SEWER FUND					
BONDS AND NOTES PAYABLE					
Bond premium	\$ 223,349	\$ -	\$ (211,465)	\$ 11,884	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	2,136,156	123,844 (1)	(2,260,000)	-	-
Guaranteed Sewer Revenue Bonds					
Series of 2012	1,860,000	-	(350,000)	1,510,000	360,000
Series of 2016	2,145,000	-	(2,145,000)	-	-
TOTAL BONDS AND NOTES PAYABLE	<u>\$ 6,364,505</u>	<u>\$ 123,844</u>	<u>\$ (4,966,465)</u>	<u>\$ 1,521,884</u>	<u>\$ 360,000</u>
WATER FUND					
BONDS AND NOTES PAYABLE					
Bond premium	\$ 469,792	\$ -	\$ (72,668)	\$ 397,124	\$ -
Bonds payable					
Guaranteed Water Revenue Bonds					
Series of 2019	5,085,000	-	(1,580,000)	3,505,000	1,665,000
Series of 2020	1,299,000	-	(1,000)	1,298,000	1,000
TOTAL BONDS AND NOTES PAYABLE	<u>6,853,792</u>	<u>-</u>	<u>(1,653,668)</u>	<u>5,200,124</u>	<u>1,666,000</u>
OTHER LIABILITIES					
Net pension liability	445,643	-	(343,853)	101,790	-
Compensated absences	102,883	7,834	-	110,717	-
TOTAL OTHER LIABILITIES	<u>548,526</u>	<u>7,834</u>	<u>(343,853)</u>	<u>212,507</u>	<u>-</u>
TOTAL WATER FUND LONG-TERM LIABILITIES	<u>\$ 7,402,318</u>	<u>\$ 7,834</u>	<u>\$ (1,997,521)</u>	<u>\$ 5,412,631</u>	<u>\$ 1,666,000</u>

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE E - LONG-TERM LIABILITIES (Continued)

Guaranteed Sewer Bonds, Series of 1991

On September 15, 1991, the Authority issued approximately \$15.4 million in Guaranteed Sewer Bonds for the purpose of refunding the Authority's debt service on the Guaranteed Sewer Bonds, Series of 1989, maturing from November 1, 1991 to and including May 1, 1999. The bonds issued are in the form of capital appreciation bonds, which means bonds that bear no periodic, current interest but which accrete in value from the date thereof to the date of maturity thereof at the compounded yield to maturity on the original principal amount, in lieu of such periodic, current interest. The original maturity value of the Series of 1991 Bonds is \$51,085,000. The bonds were paid in full in 2021.

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>
\$ 360,000	\$ 47,713	2022	3.000%
370,000	36,913	2023	3.125%
385,000	25,350	2024	3.250%
<u>395,000</u>	<u>12,836</u>	2025	3.250%
<u>\$ 1,510,000</u>	<u>\$ 122,812</u>		

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE E - 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 bonds were paid in full in 2021.

Water Revenue Bonds of 2019

In 2019, the Authority issued Water Revenue Bonds of 2019, dated November 14, 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 June 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.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE E - 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>
\$ 1,665,000	\$ 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%
300,000	18,400	2026	4.00%
<u>310,000</u>	<u>6,200</u>	2027	4.00%
<u>\$ 3,505,000</u>	<u>\$ 298,325</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	\$ 13,110	2022	1.01%
1,054,000	13,100	2023	1.01%
<u>243,000</u>	<u>2,454</u>	2024	1.01%
<u>\$ 1,298,000</u>	<u>\$ 28,664</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.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE F - CONDUIT DEBT

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

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

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

NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2021. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE H - SEWER SYSTEM LEASE AGREEMENT

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

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021

NOTE H - SEWER SYSTEM LEASE AGREEMENT (Continued)

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

<u>Year Ending</u> <u>December 31,</u>		
2022	\$	407,713
2023		406,913
2024		410,350
2025		<u>407,838</u>
	\$	<u><u>1,632,814</u></u>

Rents received from the Borough in 2021 were \$2,660,463.

NOTE I - MANAGEMENT AGREEMENT

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

Management fees for the year ended December 31, 2021, were \$460,000.

NOTE J - SALE OF WATER DISTRIBUTION FACILITY

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

The amount recognized as revenue under this agreement in 2021 was \$398,530.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE K - CONTRIBUTION TO BOROUGH GARAGE PROJECT

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

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

Summary of Significant Accounting Policies

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

Plan Description

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

Management of the Borough and Authority Pension Plan is vested in the Pension/Investment Board, which is responsible for management of plan assets. The Pension/Investment Board has delegated the authority to manage certain plan assets to RBC Wealth Management.

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

Contributions - Pennsylvania Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. In accordance with the plan's governing ordinance, members are required to contribute at least 5.75% of compensation to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding.

The Authority's portion of the MMO obligation for the plan was \$489,816 for the year ended December 31, 2021.

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

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

At December 31, 2021, the Authority reported a liability of \$101,790 for its proportionate share of the net pension liability. The net position liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021. The Authority's proportion of the net pension liability was based on the Authority's share of the minimum municipal obligation relative to the total minimum municipal obligation. At December 31, 2021, the Authority's proportion was 32.26%.

For the year ended December 31, 2021, the Authority recognized pension expense of \$112,253. At December 31, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 71,307	\$ 80,612
Changes in assumptions	283,444	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>831,098</u>
TOTALS	<u>\$ 354,751</u>	<u>\$ 911,710</u>

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021

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

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

<u>Year Ending</u> <u>December 31,</u>	
2022	\$ (82,108)
2023	(280,822)
2024	(107,187)
2025	<u>(86,842)</u>
	<u>\$ (556,959)</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

POTTSTOWN BOROUGH AUTHORITY
(A Component Unit of the Borough of Pottstown)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2021, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	50.00%	5.50% - 7.50%
Fixed income	<u>50.00%</u>	1.00% - 3.00%
	<u>100.00%</u>	

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

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

	<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
Authority's proportionate share of the net pension liability	\$ <u>948,301</u>	\$ <u>101,790</u>	\$ <u>(612,682)</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Authority's proportion of the net pension liability	<u>32.26%</u>	<u>32.26%</u>	<u>32.26%</u>
Authority's proportionate share of the net pension liability	\$ <u>101,790</u>	\$ <u>1,381,606</u>	\$ <u>1,310,774</u>
Authority's covered payroll	\$ <u>1,387,299</u>	\$ <u>1,352,116</u>	\$ <u>1,350,967</u>
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	<u>7.34%</u>	<u>102.18%</u>	<u>97.02%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>98.77%</u>	<u>94.08%</u>	<u>81.94%</u>

NOTE TO THE SCHEDULE

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

<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>32.26%</u>	<u>32.26%</u>	<u>32.26%</u>
\$ <u>2,266,537</u>	\$ <u>1,499,546</u>	\$ <u>1,054,503</u>
\$ <u>1,144,012</u>	\$ <u>1,184,692</u>	\$ <u>1,487,945</u>
<u>198.12%</u>	<u>126.58%</u>	<u>70.87%</u>
<u>68.17%</u>	<u>78.28%</u>	<u>83.18%</u>

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Authority's proportion of the contributions	\$ 489,816	\$ 425,880	\$ 291,911
Contributions in relation to the Authority's determined contribution	<u>489,816</u>	<u>425,880</u>	<u>291,911</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 1,387,299</u>	<u>\$ 1,352,116</u>	<u>\$ 1,350,967</u>
Contributions as a percentage of covered payroll	<u>35.31%</u>	<u>31.50%</u>	<u>21.61%</u>

NOTE TO THE SCHEDULE

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

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 105,475	\$ 110,676	\$ 95,227
<u>105,475</u>	<u>110,676</u>	<u>95,227</u>
\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
\$ <u><u>1,144,012</u></u>	\$ <u><u>1,184,692</u></u>	\$ <u><u>1,487,945</u></u>
<u><u>9.22%</u></u>	<u><u>9.34%</u></u>	<u><u>6.40%</u></u>