

**BOROUGH OF POTTSTOWN**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2017*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

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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, 2017, 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.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

For the year ended December 31, 2017, the Borough of Pottstown adopted new accounting guidance, implementing Governmental Accounting Standards Board Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 20 budgetary comparison information on pages 83 through 91, pension plan information on pages 92 through 98 and postemployment benefits other than pension funding progress on page 102 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 July 6, 2018, 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.



Oaks, Pennsylvania  
July 6, 2018

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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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, 2017. 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, 2017.

**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, 2017**

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- *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, 2017

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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, 2017

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The Borough has three kinds of funds:

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

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

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

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

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

### **Net Position**

Total assets were \$46.5 million for 2017, which represents a slight decrease of .15% from 2016. Governmental activities capital assets, net, increased by \$.3 million. Capital additions for 2017 totaled \$2.0 million and included expenditures to upgrade facility lights to LED, purchase of a police vehicle, two Paratransit vehicles, and equipment and expenditures for major grant supported projects. This increase was offset by the \$1.7 million increase in accumulated depreciation resulting from 2017 depreciation expense. Other assets decreased by \$0.3 million or 1.6% in 2017. Cash and cash equivalents increased by \$.4 million. A major road restoration project was deferred until 2018 and resulted in an increase in cash collected from Liquid Fuels taxes. Unrestricted investments decreased by \$.4 million as a result of liquidating investments to fund current and future governmental activities and capital projects. Accounts receivable due from other governments decreased by \$.3 million due to the lower grants receivable.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

Total liabilities were \$33.4 million and increased by \$1.3 million or 3.8% in 2017. Short-term liabilities decreased by \$1.3 million due to a re-classification of account types from 2016 to 2017. Long-term liabilities increased by \$2.6 million or 8%. The increase is the result of the other post-employment benefits' growing liability and higher accrued wages due to contractual increases.

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 2017 financial statements.

**Condensed Statements of Net Position**

|  | Governmental Activities |                     | Business-Type Activities |                     | Totals               |                      | Variance            |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|---------------------|
|  | 2017                    | 2016                | 2017                     | 2016                | 2017                 | 2016                 |                     |
| <b>ASSETS</b>                                    |                         |                     |                          |                     |                      |                      |                     |
| Capital assets                                   | \$ 27,362,717           | \$ 27,102,381       | \$ 710,600               | \$ 737,089          | \$ 28,073,317        | \$ 27,839,470        | \$ 233,847          |
| Other assets                                     | 9,707,914               | 10,225,882          | 8,696,340                | 8,485,887           | 18,404,254           | 18,711,769           | (307,515)           |
| <b>TOTAL ASSETS</b>                              | <b>37,070,631</b>       | <b>37,328,263</b>   | <b>9,406,940</b>         | <b>9,222,976</b>    | <b>46,477,571</b>    | <b>46,551,239</b>    | <b>(73,668)</b>     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>            |                         |                     |                          |                     |                      |                      |                     |
| Deferred outflows of resources, pension activity | 3,746,796               | 2,841,418           | 455,039                  | 348,049             | 4,201,835            | 3,189,467            | 1,012,368           |
| <b>LIABILITIES</b>                               |                         |                     |                          |                     |                      |                      |                     |
| Other liabilities                                | 1,377,251               | 2,897,446           | 818,392                  | 643,559             | 2,195,643            | 3,541,005            | (1,345,362)         |
| Long-term liabilities                            | 30,079,382              | 27,762,394          | 1,088,613                | 783,162             | 31,167,995           | 28,545,556           | 2,622,439           |
| <b>TOTAL LIABILITIES</b>                         | <b>31,456,633</b>       | <b>30,659,840</b>   | <b>1,907,005</b>         | <b>1,426,721</b>    | <b>33,363,638</b>    | <b>32,086,561</b>    | <b>1,277,077</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>             |                         |                     |                          |                     |                      |                      |                     |
| Deferred inflows of resources, pension activity  | 1,389,399               | 871,431             | 59,920                   | 119,839             | 1,449,319            | 991,270              | 458,049             |
| <b>NET POSITION</b>                              |                         |                     |                          |                     |                      |                      |                     |
| Net investment in capital assets                 | 23,731,350              | 23,611,305          | 710,600                  | 737,089             | 24,441,950           | 24,348,394           | 93,556              |
| Restricted                                       | 2,512,333               | 3,267,708           | -                        | -                   | 2,512,333            | 3,267,708            | (755,375)           |
| Unrestricted                                     | (18,272,288)            | (18,240,603)        | 7,184,454                | 7,287,376           | (11,087,834)         | (10,953,227)         | (134,607)           |
| <b>TOTAL NET POSITION</b>                        | <b>\$ 7,971,395</b>     | <b>\$ 8,638,410</b> | <b>\$ 7,895,054</b>      | <b>\$ 8,024,465</b> | <b>\$ 15,866,449</b> | <b>\$ 16,662,875</b> | <b>\$ (796,426)</b> |

**Changes in Net Position**

The statement of activities represents changes in net position for the year ended December 31, 2017. 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, 2017**

**Condensed Statements of Activities**

|  | Governmental Activities |                     | Business-Type Activities |                     | Totals               |                      | Variance            |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|---------------------|
|  | 2017                    | 2016                | 2017                     | 2016                | 2017                 | 2016                 |                     |
| <b>REVENUES</b>                                    |                         |                     |                          |                     |                      |                      |                     |
| Program revenues                                   |                         |                     |                          |                     |                      |                      |                     |
| Charges for services                               | \$ 4,973,403            | \$ 5,231,604        | \$ 9,506,710             | \$ 9,138,57         | \$ 14,480,113        | \$ 14,369,761        | \$ 110,352          |
| Operating grants and contributions                 | 4,186,024               | 4,295,528           | -                        | 13,413              | 4,186,024            | 4,308,941            | (122,917)           |
| Capital grants and contributions                   | 819,798                 | 745,372             | -                        | -                   | 819,798              | 745,372              | 74,426              |
| General revenues                                   |                         |                     |                          |                     |                      |                      |                     |
| Real estate taxes                                  | 8,241,723               | 8,193,106           | -                        | -                   | 8,241,723            | 8,193,106            | 48,617              |
| Earned income taxes                                | 2,307,475               | 2,314,840           | -                        | -                   | 2,307,475            | 2,314,840            | (7,365)             |
| Other taxes  | 1,054,969               | 794,242             | -                        | -                   | 1,054,969            | 794,242              | 260,727             |
| Unrestricted licenses and fees                     | 529,584                 | 535,723             | -                        | -                   | 529,584              | 535,723              | (6,139)             |
| Gain on sale of capital assets                     | 29,816                  | 72,446              | -                        | -                   | 29,816               | 72,446               | (42,630)            |
| Unrestricted investment earnings                   | 48,965                  | 28,835              | 53,975                   | 55,035              | 102,940              | 83,870               | 19,070              |
| Royalties and rental income                        | 29,603                  | 25,047              | -                        | -                   | 29,603               | 25,047               | 4,556               |
| Realized and unrealized gain (loss) on investments | 1523                    | 594                 | 11649                    | (5,544)             | 13,172               | (4,950)              | 18,122              |
| Reimbursement from Pottstown Borough Authority     | 223,173                 | 200,000             | -                        | 19,203              | 223,173              | 219,203              | 3,970               |
| Miscellaneous                                      | 12,1508                 | 125,828             | 137,403                  | 66,867              | 258,911              | 192,695              | 66,216              |
| <b>TOTAL REVENUES</b>                              | <b>22,567,564</b>       | <b>22,563,165</b>   | <b>9,709,737</b>         | <b>9,287,131</b>    | <b>32,277,301</b>    | <b>31,850,296</b>    | <b>427,005</b>      |
| <b>EXPENSES</b>                                    |                         |                     |                          |                     |                      |                      |                     |
| General government                                 | 3,896,255               | 2,999,041           | -                        | -                   | 3,896,255            | 2,999,041            | 897,214             |
| Public safety                                      | 10,903,719              | 11,989,602          | -                        | -                   | 10,903,719           | 11,989,602           | (1,085,883)         |
| Public works                                       | 6,763,031               | 7,189,350           | -                        | -                   | 6,763,031            | 7,189,350            | (426,319)           |
| Culture and recreation                             | 1,363,117               | 1,399,547           | -                        | -                   | 1,363,117            | 1,399,547            | (36,430)            |
| Conservation and development                       | 169,018                 | 757,698             | -                        | -                   | 169,018              | 757,698              | (588,680)           |
| Debt service                                       | 162,612                 | 104,467             | -                        | -                   | 162,612              | 104,467              | 58,145              |
| Contribution to Pottstown Borough Authority        | -                       | 12,894              | 1,300,000                | 1,658,317           | 1,300,000            | 1,771,211            | (471,211)           |
| Sewer services                                     | -                       | -                   | 8,515,975                | 7,185,014           | 8,515,975            | 7,185,014            | 1,330,961           |
| <b>TOTAL EXPENSES</b>                              | <b>23,257,752</b>       | <b>24,552,599</b>   | <b>9,815,975</b>         | <b>8,843,331</b>    | <b>33,073,727</b>    | <b>33,395,930</b>    | <b>(322,203)</b>    |
| <b>TRANSFERS</b>                                   | <b>(23,173)</b>         | <b>-</b>            | <b>23,173</b>            | <b>-</b>            | <b>-</b>             | <b>-</b>             | <b>-</b>            |
| <b>CHANGE IN NET POSITION</b>                      | <b>(667,015)</b>        | <b>(1,989,434)</b>  | <b>(129,411)</b>         | <b>443,800</b>      | <b>(796,426)</b>     | <b>(1,545,634)</b>   | <b>749,208</b>      |
| <b>NET POSITION AT BEGINNING OF YEAR</b>           | <b>8,638,410</b>        | <b>10,627,844</b>   | <b>8,024,465</b>         | <b>7,580,665</b>    | <b>16,662,875</b>    | <b>18,208,509</b>    | <b>(1,545,634)</b>  |
| <b>NET POSITION AT END OF YEAR</b>                 | <b>\$ 7,971,395</b>     | <b>\$ 8,638,410</b> | <b>\$ 7,895,054</b>      | <b>\$ 8,024,465</b> | <b>\$ 15,866,449</b> | <b>\$ 16,662,875</b> | <b>\$ (796,426)</b> |

Total net position for 2017 increased by \$.8 million, which is an improvement from the \$2 million decrease in 2016. In part, this is a result of keeping within the bottom line of the budget for the year 2017. Other factors were that total revenues for 2017 were \$32.3 million and increased by \$.4 million or 1.3% from 2016. Of that \$.4 million increase, \$.3 million is attributed to increased Transfer Taxes. Capital grants and contributions increased slightly. Real estate taxes increased less than \$.1 million due to declining assessments resulting from County reassessments. Business-type activity revenues were slightly higher due to higher bulk sewer revenues received from outside sludge haulers.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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Total expenses were \$33.1 million and decreased by \$.3 million, or .9%, in 2017. While sewer services increased by \$1.3, Public Safety, Public Works, Culture and Recreation decreased a total of \$1.6. Part of this decrease is a result of lower depreciation related to the public works facility, and completed safety-related grant projects in 2016. The sewer increase in expenses was a result of extensive maintenance to sewer lines, as well as repairs to the sludge dryer.

**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 2017, general real estate tax revenue was \$8.2 million, which increased very little, \$.05 million, from 2016. The net program expenses for the year ended December 31, 2017, can be found in the accompanying statement of activities.

The real estate tax is based on the assessed value of real property. Changes in the assessed valuation can affect tax revenues. The Boroughs assessed valuation of real property was \$804 million for 2017 and was \$1.0 million lower than 2016.

Borough Council raised the tax millage in 2017 by .031 mills, going from 10.311 to 10.340. This was the first increase since 2014. Due to the declining assessments and rising employee costs, in December 2017, Borough Council again approved an increase of 1.24 mills, going from 10.340 to 11.58 for 2018. The Borough's tax rate is well below the Commonwealth-set cap for operating costs. Maintaining consistent millage rates may have its positive political appearances; however, it has become evident that such a practice is not sustainable.

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, 2017**

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

| Program                      | Total Cost<br>of Services | Net Cost<br>of Services |
|------------------------------|---------------------------|-------------------------|
| General government           | \$ 3,896,255              | \$ (3,123,112)          |
| Public safety                | 10,903,719                | (9,287,246)             |
| Public works                 | 6,763,031                 | (197,873)               |
| Culture and recreation       | 1,363,117                 | (1,023,652)             |
| Conservation and development | 169,018                   | 515,968                 |
| Sewer services               | 8,515,975                 | 990,735                 |
|                              | <u>\$ 31,611,115</u>      | <u>\$ (12,125,180)</u>  |

Total Net Cost of Services is \$.9 million higher when compared to the prior year primarily due to higher other post-employment benefit expense and pension expenses related to the implementation of GASB No. 68 reporting requirements.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Borough's capital assets at December 31, 2017, net of accumulated depreciation, were \$28 million. Capital assets consist primarily of land, buildings, equipment and infrastructure. The table below is a summary of capital assets at December 31, 2017, and compares 2017 with 2016.

|                            | Governmental Activities |                      | Business-Type Activities |                    | Totals               |                      | Variance           |
|----------------------------|-------------------------|----------------------|--------------------------|--------------------|----------------------|----------------------|--------------------|
|                            | 2017                    | 2016                 | 2017                     | 2016               | 2017                 | 2016                 |                    |
| <b>CAPITAL ASSETS</b>      |                         |                      |                          |                    |                      |                      |                    |
| Land                       | \$ 2,648,352            | \$ 2,648,352         | \$ -                     | \$ -               | \$ 2,648,352         | \$ 2,648,352         | \$ -               |
| Construction in progress   | 1,293,828               | 753,308              | -                        | -                  | 1,293,828            | 753,308              | 540,520            |
| Land improvements          | 10,411,515              | 10,411,515           | -                        | -                  | 10,411,515           | 10,411,515           | -                  |
| Buildings and improvements | 13,682,644              | 13,435,635           | -                        | -                  | 13,682,644           | 13,435,635           | 247,009            |
| Machinery and equipment    | 11,396,446              | 10,781,479           | 496,616                  | 482,287            | 11,893,062           | 11,263,766           | 629,296            |
| Infrastructure             | 5,900,809               | 5,397,927            | 5,752,740                | 5,752,740          | 11,653,549           | 11,150,667           | 502,882            |
| Accumulated depreciation   | <u>(17,970,877)</u>     | <u>(16,325,835)</u>  | <u>(5,538,756)</u>       | <u>(5,497,938)</u> | <u>(23,509,633)</u>  | <u>(21,823,773)</u>  | <u>(1,685,860)</u> |
| CAPITAL ASSETS, net        | <u>\$ 27,362,717</u>    | <u>\$ 27,102,381</u> | <u>\$ 710,600</u>        | <u>\$ 737,089</u>  | <u>\$ 28,073,317</u> | <u>\$ 27,839,470</u> | <u>\$ 233,847</u>  |

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

Construction in progress increased by \$.5 million due to the work on several grant projects, including Walk-Bike Pottstown and the airport.

Building and improvements increased by \$.2 million due to the lighting conversion to LED in Borough facilities.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

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Government machinery and equipment increased by \$.6 million due to the purchase of a new police vehicle and a new fire administration vehicle, along with various other purchases of equipment.

Infrastructure assets increased by \$.5 million due to the completion of the Laurel Street flooding mitigation, bus shelter replacements, and the start-up of the Walk-Bike project.

Accumulated depreciation increased by \$1.6 million due to the recording of 2017 depreciation.

**Debt Administration**

Total long-term liabilities were \$31.6 million at December 31, 2017. General Obligation Notes decreased by \$.2 million due to the savings from refinancing of a Borough loan into bonds, and re-classification of the County radio debt. Capital lease payable decreased by \$.1 million reflecting the payment of principal in 2017. The non-uniform pension plan increased by \$1 million in general government and by \$.3 million in business type activities.

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

|                                   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reduction</u>      | <u>Ending<br/>Balance</u> |
|-----------------------------------|------------------------------|---------------------|-----------------------|---------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>    |                              |                     |                       |                           |
| Bonds and notes                   | \$ 3,057,831                 | \$ 2,679,763        | \$ (2,890,622)        | \$ 2,846,972              |
| Capital lease payable             | 904,776                      | -                   | (120,381)             | 784,395                   |
| OPEB liability                    | 17,349,968                   | 2,049,825           | (784,176)             | 18,615,617                |
| Compensated absences              | 385,664                      | 36,264              | -                     | 421,928                   |
| Pension liability                 | <u>6,853,067</u>             | <u>1,029,229</u>    | <u>-</u>              | <u>7,882,296</u>          |
| TOTAL GOVERNMENTAL<br>ACTIVITIES  | <u>\$ 28,551,306</u>         | <u>\$ 5,795,081</u> | <u>\$ (3,795,179)</u> | <u>\$ 30,551,208</u>      |
| <b>BUSINESS-TYPE ACTIVITIES</b>   |                              |                     |                       |                           |
| Compensated absences              | \$ 72,122                    | \$ 5,364            | \$ -                  | \$ 77,486                 |
| Pension liability                 | <u>711,040</u>               | <u>300,087</u>      | <u>-</u>              | <u>1,011,127</u>          |
| TOTAL BUSINESS-TYPE<br>ACTIVITIES | <u>\$ 783,162</u>            | <u>\$ 305,451</u>   | <u>\$ -</u>           | <u>\$ 1,088,613</u>       |

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

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

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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, 2017 and 2016, were as follows:

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

|                            | <u>2017</u>                 | <u>2016</u>                 | <u>Variation</u>         |
|----------------------------|-----------------------------|-----------------------------|--------------------------|
| REVENUES                   |                             |                             |                          |
| Taxes                      | \$ 11,588,931               | \$ 11,320,323               | \$ 268,608               |
| Intergovernmental          | 5,001,638                   | 5,040,900                   | (39,262)                 |
| Charges for services       | 4,814,728                   | 5,013,429                   | (198,701)                |
| Fees, licenses and permits | 553,031                     | 534,288                     | 18,743                   |
| Court costs and fines      | 170,469                     | 214,568                     | (44,099)                 |
| Interest and rents         | 76,112                      | 53,883                      | 22,229                   |
| Miscellaneous              | <u>94,430</u>               | <u>131,722</u>              | <u>(37,292)</u>          |
| <b>TOTAL REVENUES</b>      | <b>\$ <u>22,299,339</u></b> | <b>\$ <u>22,309,113</u></b> | <b>\$ <u>(9,774)</u></b> |

Governmental Funds revenues totaled \$22.3 million for the year ended December 31, 2017, which was almost equivalent with 2016. Taxes increased by \$.3 million due to the millage increase from 10.311 to 10.340. This was off-set by a decrease of \$.24 million in charges for services and court costs and fines. There were fewer building permits issued in 2017 and fewer court costs. Intergovernmental revenues decreased by \$.04 million as a result of less grant activity in 2017.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

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**Governmental Funds Expenditures**

Governmental Funds expenditures by source at December 31, 2017 and 2016, were as follows:

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

|                              | <u>2017</u>          | <u>2016</u>          | <u>Variation</u>      |
|------------------------------|----------------------|----------------------|-----------------------|
| EXPENDITURES                 |                      |                      |                       |
| General government           | \$ 3,247,818         | \$ 3,198,971         | \$ 48,847             |
| Public safety                | 9,311,276            | 9,219,270            | 92,006                |
| Public works                 | 6,280,279            | 6,439,048            | (158,769)             |
| Culture and recreation       | 1,502,195            | 1,454,694            | 47,501                |
| Capital projects             | -                    | 991,304              | (991,304)             |
| Conservation and development | 769,534              | 1,181,124            | (411,590)             |
| Debt service                 | 458,636              | 442,510              | 16,126                |
|                              | <u>21,569,738</u>    | <u>22,926,921</u>    | <u>(1,357,183)</u>    |
| TOTAL EXPENDITURES           | \$ <u>21,569,738</u> | \$ <u>22,926,921</u> | \$ <u>(1,357,183)</u> |

Governmental Funds expenditures totaled \$21.6 million for the year ended December 31, 2017, which was \$1.4 million less than the \$22.9 million for 2016. This decrease is due to public works, and culture and recreation, and capital projects having fewer or no projects than in 2016. The 2016 road restoration was deferred to 2017, and then deferred again to 2018.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

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**Governmental Fund Balances**

The ending balances for Governmental Funds and net position for Proprietary Funds at December 31, 2017, were as follows:

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

| <u>Fund</u>                 | <u>Governmental<br/>Funds</u> | <u>Proprietary<br/>Funds</u> |
|-----------------------------|-------------------------------|------------------------------|
| General Fund                | \$ 2,443,162                  | \$ -                         |
| Urban Transit Fund          | 1,122,223                     | -                            |
| Refuse Fund                 | 3,186,367                     | -                            |
| Borough Grant Fund          | (77,456)                      | -                            |
| Capital Operating Fund      | (1,000,154)                   | -                            |
| Liquid Fuels Fund           | 1,278,068                     | -                            |
| Debt Service Fund           | 125,743                       | -                            |
| Other Governmental Funds    | 1,281,272                     | -                            |
| Sewer Fund                  | -                             | 7,763,022                    |
| Sewer Collection Lines Fund | -                             | 132,032                      |
|                             | <u>\$ 8,359,225</u>           | <u>\$ 7,895,054</u>          |

The Borough's Governmental Funds reported a combined fund balance of \$8.4 million at December 31, 2017. Governmental Funds had an unassigned fund balance of \$1.8 million and \$.4 million in non-spendable prepaid expenditures. The remaining \$6.2 million is restricted and assigned as to use and 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, 2017, the total General Fund balance was \$2.4 million. The fund balance at the end of 2016 was \$2.1 million, or a 12.5% 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, 2017

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

**Economic Conditions**

The Borough's assessed values decreased by \$1.0 million in 2017 continuing a long-term trend. This is due to an increasing amount of requests to Montgomery County for property reassessments. The decline in assessed values has negatively impacted the Borough's primary source of operating revenue. In addition, the Borough is an older, densely populated and developed community with aging infrastructure that requires maintenance, rehabilitation, or reconstruction, further straining municipal resources.

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

Several heritage tourism, economic, and community development initiatives have been implemented in partnership with the Pottstown Downtown Improvement District Authority (PDIDA) and the Pottstown Area Industrial Development Corporation (PAID, Inc.) to meet the goals of the Borough's economic development strategic plan. The Borough partnered with several organizations to develop a Tourism and Recreation District (TREC) located in the western gateway to the Borough. Two attractions in the TREC District, the Carousel at Pottstown and the Colebrookdale Railroad, have received funding from Montgomery County to complete final improvements. Both became fully operational in 2017. Construction started on Walk & Bike Pottstown in late 2017, which will extend the current bicycle lanes on High Street throughout the Borough to increase connectivity and provide more opportunities for active transportation. Project should be completed by the fall of 2018.

**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 in the year 2016 which authorized additional financial products to the approved list of approved investments, higher quality money market instruments including repurchase agreements, commercial paper, negotiable certificates of deposit and bankers' acceptances, are now approved investments.

**Government Funding**

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

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Personnel Costs**

The Borough has contracts with two unions: The Pottstown Police Officers Association (PPOA) and the American Federation of State County and Municipal Employees (AFSCME). The current AFSCME contract was renewed and is due to expire on December 31, 2018, and the PPOA is due to expire on December 31, 2019. The AFSCME and PPOA contracts were renewed without substantial changes.

**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, 2017**

|   | Primary Government         |                             |                      | Component<br>Unit    |
|---|----------------------------|-----------------------------|----------------------|----------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Totals               |                      |
| <b>ASSETS</b>   |                            |                             |                      |                      |
| Cash and cash equivalents                                   |                            |                             |                      |                      |
| Unrestricted  | \$ 5,638,528               | \$ 3,626,051                | \$ 9,264,579         | \$ 1,366,411         |
| Restricted  | 505,287                    | -                           | 505,287              | 5,506,083            |
| Investments   |                            |                             |                      |                      |
| Unrestricted  | 1,020,468                  | 3,331,052                   | 4,351,520            | 2,487,660            |
| Restricted  | -                          | -                           | -                    | 8,624,911            |
| Accounts receivable, net                                    | 949,063                    | 1,592,610                   | 2,541,673            | 1,011,698            |
| Taxes receivable  | 412,721                    | -                           | 412,721              | -                    |
| Due from other governments                                  | 782,272                    | 49,923                      | 832,195              | -                    |
| Other receivables, net                                      | -                          | -                           | -                    | 32,646               |
| Due from primary government                                 | -                          | -                           | -                    | 25,879               |
| Prepaid expenses  | 399,575                    | 96,704                      | 496,279              | 76,525               |
| Unamortized debt discounts, net                             | -                          | -                           | -                    | 6,022                |
| Capital assets not being depreciated                        | 3,942,180                  | -                           | 3,942,180            | 7,529,106            |
| Capital assets being depreciated, net                       | 23,420,537                 | 710,600                     | 24,131,137           | 48,240,306           |
| <b>TOTAL ASSETS</b>   | <b>37,070,631</b>          | <b>9,406,940</b>            | <b>46,477,571</b>    | <b>74,907,247</b>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                       |                            |                             |                      |                      |
| Deferred loss on refunding, net of accumulated amortization | -                          | -                           | -                    | 813,323              |
| Deferred outflows of resources, pension activity            | 3,746,796                  | 455,039                     | 4,201,835            | 674,843              |
| <b>TOTAL OUTFLOWS OF RESOURCES</b>                          | <b>3,746,796</b>           | <b>455,039</b>              | <b>4,201,835</b>     | <b>1,488,166</b>     |
| <b>LIABILITIES</b>  |                            |                             |                      |                      |
| Accounts payable  | 629,504                    | 280,315                     | 909,819              | 1,523,091            |
| Accrued liabilities   | 205,006                    | 17,198                      | 222,204              | -                    |
| Interest payable  | 12,998                     | -                           | 12,998               | 91,728               |
| Unearned revenue  | 32,038                     | -                           | 32,038               | -                    |
| Due to component unit                                       | 25,879                     | -                           | 25,879               | -                    |
| Due to other governments                                    | -                          | 520,879                     | 520,879              | -                    |
| Unamortized bond premiums, net                              | 33,324                     | -                           | 33,324               | 1,097,922            |
| Long-term liabilities                                       |                            |                             |                      |                      |
| Portion due or payable within one year                      | 438,502                    | -                           | 438,502              | 5,981,552            |
| Portion due or payable after one year                       | 30,079,382                 | 1,088,613                   | 31,167,995           | 24,334,311           |
| <b>TOTAL LIABILITIES</b>                                    | <b>31,456,633</b>          | <b>1,907,005</b>            | <b>33,363,638</b>    | <b>33,028,604</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                        |                            |                             |                      |                      |
| Deferred inflows of resources, pension activity             | 1,389,399                  | 59,920                      | 1,449,319            | 88,863               |
| <b>NET POSITION</b>   |                            |                             |                      |                      |
| Net investment in capital assets                            | 23,731,350                 | 710,600                     | 24,441,950           | 40,850,620           |
| Restricted for  |                            |                             |                      |                      |
| Grants  | 1,113,868                  | -                           | 1,113,868            | -                    |
| Liquid fuels  | 1,278,068                  | -                           | 1,278,068            | -                    |
| Debt service  | 120,397                    | -                           | 120,397              | 14,130,994           |
| Unrestricted  | (18,272,288)               | 7,184,454                   | (11,087,834)         | (11,703,668)         |
| <b>TOTAL NET POSITION</b>                                   | <b>\$ 7,971,395</b>        | <b>\$ 7,895,054</b>         | <b>\$ 15,866,449</b> | <b>\$ 43,277,946</b> |

See accompanying notes to the basic financial statements.



**BOROUGH OF POTTSTOWN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

| Functions/Programs  | Expenses             | Program Revenues     |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>PRIMARY GOVERNMENT</b>   |                      |                      |                                    |                                  |
| Governmental activities   |                      |                      |                                    |                                  |
| General government  | \$ 3,896,255         | \$ 680,547           | \$ 92,596                          | \$ -                             |
| Public safety   |                      |                      |                                    |                                  |
| Police  | 9,454,577            | 473,162              | 934,635                            | -                                |
| Fire  | 1,449,142            | 100,092              | 108,584                            | -                                |
| Public works  |                      |                      |                                    |                                  |
| Zoning  | 1,473,759            | 48,177               | -                                  | -                                |
| Highways  | 491,723              | 35,204               | 599,382                            | -                                |
| Sanitation  | 2,519,942            | 2,495,151            | 113,053                            | -                                |
| Other   | 2,277,607            | 945,350              | 2,194,029                          | 134,812                          |
| Culture and recreation  |                      |                      |                                    |                                  |
| Recreation  | 1,193,268            | 195,720              | 128,725                            | -                                |
| Library   | 179,964              | -                    | 15,020                             | -                                |
| Conservation and development  | 158,903              | -                    | -                                  | 684,986                          |
| Interest on long-term debt  | 162,612              | -                    | -                                  | -                                |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>                                | <b>23,257,752</b>    | <b>4,973,403</b>     | <b>4,186,024</b>                   | <b>819,798</b>                   |
| Business-type activities  |                      |                      |                                    |                                  |
| Sewer   | 8,515,975            | 9,506,710            | -                                  | -                                |
| <b>TOTAL PRIMARY GOVERNMENT</b>                                     | <b>\$ 31,773,727</b> | <b>\$ 14,480,113</b> | <b>\$ 4,186,024</b>                | <b>\$ 819,798</b>                |
| <b>COMPONENT UNIT</b>   |                      |                      |                                    |                                  |
| Pottstown Borough Authority - Public Works                          | \$ 9,271,314         | \$ 6,085,065         | \$ -                               | \$ 269,243                       |
| <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                      |                      |                      |                                    |                                  |
| TRANSFERS   |                      |                      |                                    |                                  |
| 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<br>Activities | Business-Type<br>Activities | Totals         | Component<br>Unit |
|----------------------------|-----------------------------|----------------|-------------------|
| \$ (3,123,112)             | \$ -                        | \$ (3,123,112) |                   |
| (8,046,780)                | -                           | (8,046,780)    |                   |
| (1,240,466)                | -                           | (1,240,466)    |                   |
| (1,425,582)                | -                           | (1,425,582)    |                   |
| 142,863                    | -                           | 142,863        |                   |
| 88,262                     | -                           | 88,262         |                   |
| 996,584                    | -                           | 996,584        |                   |
| (868,823)                  | -                           | (868,823)      |                   |
| (164,944)                  | -                           | (164,944)      |                   |
| 526,083                    | -                           | 526,083        |                   |
| (162,612)                  | -                           | (162,612)      |                   |
| (13,278,527)               | -                           | (13,278,527)   |                   |
| -                          | 990,735                     | 990,735        |                   |
| (13,278,527)               | 990,735                     | (12,287,792)   |                   |
|                            |                             |                | \$ (2,917,006)    |
| 8,241,723                  | -                           | 8,241,723      | -                 |
| 56,327                     | -                           | 56,327         | -                 |
| 561,462                    | -                           | 561,462        | -                 |
| 2,307,475                  | -                           | 2,307,475      | -                 |
| 437,180                    | -                           | 437,180        | -                 |
| 48,965                     | 53,975                      | 102,940        | 679,834           |
| 29,603                     | -                           | 29,603         | 2,804,526         |
| 1,523                      | 11,649                      | 13,172         | 170,229           |
| 529,584                    | -                           | 529,584        | -                 |
| 29,816                     | -                           | 29,816         | -                 |
| 121,508                    | 137,403                     | 258,911        | -                 |
| -                          | (1,300,000)                 | (1,300,000)    | 1,300,000         |
| 223,173                    | -                           | 223,173        | (223,173)         |
| 23,173                     | (23,173)                    | -              | -                 |
| 12,611,512                 | (1,120,146)                 | 11,491,366     | 4,731,416         |
| (667,015)                  | (129,411)                   | (796,426)      | 1,814,410         |
| 8,638,410                  | 8,024,465                   | 16,662,875     | 41,463,536        |
| \$ 7,971,395               | \$ 7,895,054                | \$ 15,866,449  | \$ 43,277,946     |

# BOROUGH OF POTTSTOWN

## BALANCE SHEET

### GOVERNMENTAL FUNDS

DECEMBER 31, 2017

|  | <u>General Fund</u> | <u>Urban<br/>Transit Fund</u> | <u>Refuse Fund</u>  |
|--|---------------------|-------------------------------|---------------------|
| <b>ASSETS</b>  |                     |                               |                     |
| Cash and cash equivalents  | \$ 1,072,690        | \$ 344,862                    | \$ 1,579,757        |
| Restricted cash and cash equivalents   | -                   | 505,287                       | -                   |
| Investments  | -                   | -                             | 1,010,745           |
| Receivables  |                     |                               |                     |
| Accounts, net  | 178,389             | -                             | 629,552             |
| Taxes  | 316,680             | -                             | -                   |
| Due from other governments   | 1,793               | 420,035                       | -                   |
| Prepaid expenditures   | 290,326             | -                             | 30,162              |
| Due from other funds   | 1,105,967           | -                             | -                   |
|  | <u>1,105,967</u>    | <u>-</u>                      | <u>-</u>            |
| TOTAL ASSETS   | <u>\$ 2,965,845</u> | <u>\$ 1,270,184</u>           | <u>\$ 3,250,216</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES (DEFICIT)</b>  |                     |                               |                     |
| <b>LIABILITIES</b>   |                     |                               |                     |
| Accounts payable   | \$ 77,674           | \$ 147,711                    | \$ 60,764           |
| Accrued liabilities  | 189,991             | -                             | 3,085               |
| Due to other funds   | -                   | -                             | -                   |
| Due to component unit  | 25,879              | -                             | -                   |
| Unearned revenue   | -                   | 250                           | -                   |
|  | <u>293,544</u>      | <u>147,961</u>                | <u>63,849</u>       |
| TOTAL LIABILITIES  | <u>293,544</u>      | <u>147,961</u>                | <u>63,849</u>       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                     |                               |                     |
| Unavailable revenue, property taxes  | <u>229,139</u>      | <u>-</u>                      | <u>-</u>            |
| <b>FUND BALANCES (DEFICIT)</b>   |                     |                               |                     |
| Nonspendable, prepaid expenditures   | 290,326             | -                             | 30,162              |
| Restricted for   |                     |                               |                     |
| Grants   | -                   | 1,113,868                     | -                   |
| Liquid fuels   | -                   | -                             | -                   |
| Debt service   | -                   | -                             | -                   |
| Assigned to  |                     |                               |                     |
| Airport improvement  | -                   | -                             | -                   |
| Grants   | -                   | -                             | -                   |
| Parking lot program purposes   | -                   | -                             | -                   |
| Street lighting  | -                   | -                             | -                   |
| Fire services  | -                   | -                             | -                   |
| Library  | -                   | -                             | -                   |
| Urban transit  | -                   | 8,355                         | -                   |
| Refuse   | -                   | -                             | 3,156,205           |
| Unassigned   | 2,152,836           | -                             | -                   |
|  | <u>2,152,836</u>    | <u>-</u>                      | <u>-</u>            |
| TOTAL FUND BALANCES (DEFICIT)  | <u>2,443,162</u>    | <u>1,122,223</u>              | <u>3,186,367</u>    |
|  |                     |                               |                     |
| TOTAL LIABILITIES, DEFERRED<br>INFLOWS OF RESOURCES AND<br>FUND BALANCES (DEFICIT) | <u>\$ 2,965,845</u> | <u>\$ 1,270,184</u>           | <u>\$ 3,250,216</u> |

See accompanying notes to the basic financial statements.

| <u>Borough<br/>Grant Fund</u> | <u>Capital<br/>Operating<br/>Fund</u> | <u>Liquid<br/>Fuels Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------|---------------------------------------|------------------------------|----------------------------------|---|---|
| \$ -                          | \$ 19                                 | \$ 1,278,068                 | \$ 125,742                       | \$ 1,237,390                            | \$ 5,638,528                            |
| -                             | -                                     | -                            | -                                | -                                       | 505,287                                 |
| -                             | 9,723                                 | -                            | -                                | -                                       | 1,020,468                               |
| -                             | -                                     | -                            | -                                | 12,955                                  | 820,896                                 |
| -                             | -                                     | -                            | 32                               | 96,009                                  | 412,721                                 |
| 360,444                       | -                                     | -                            | -                                | -                                       | 782,272                                 |
| -                             | -                                     | -                            | -                                | 79,087                                  | 399,575                                 |
| -                             | -                                     | -                            | -                                | -                                       | 1,105,967                               |
| <u>\$ 360,444</u>             | <u>\$ 9,742</u>                       | <u>\$ 1,278,068</u>          | <u>\$ 125,774</u>                | <u>\$ 1,425,441</u>                     | <u>\$ 10,685,714</u>                    |
| \$ 309,939                    | \$ -                                  | \$ -                         | \$ -                             | \$ 33,416                               | \$ 629,504                              |
| -                             | -                                     | -                            | -                                | 11,930                                  | 205,006                                 |
| 96,071                        | 1,009,896                             | -                            | -                                | -                                       | 1,105,967                               |
| -                             | -                                     | -                            | -                                | -                                       | 25,879                                  |
| 31,890                        | -                                     | -                            | -                                | 3,565                                   | 35,705                                  |
| <u>437,900</u>                | <u>1,009,896</u>                      | <u>-</u>                     | <u>-</u>                         | <u>48,911</u>                           | <u>2,002,061</u>                        |
| -                             | -                                     | -                            | 31                               | 95,258                                  | 324,428                                 |
| -                             | -                                     | -                            | -                                | 79,087                                  | 399,575                                 |
| -                             | -                                     | -                            | -                                | -                                       | 1,113,868                               |
| -                             | -                                     | 1,278,068                    | -                                | -                                       | 1,278,068                               |
| -                             | -                                     | -                            | 125,743                          | -                                       | 125,743                                 |
| -                             | -                                     | -                            | -                                | 165,700                                 | 165,700                                 |
| -                             | -                                     | -                            | -                                | 121,705                                 | 121,705                                 |
| -                             | -                                     | -                            | -                                | 96,023                                  | 96,023                                  |
| -                             | -                                     | -                            | -                                | 147,253                                 | 147,253                                 |
| -                             | -                                     | -                            | -                                | 645,398                                 | 645,398                                 |
| -                             | -                                     | -                            | -                                | 26,106                                  | 26,106                                  |
| -                             | -                                     | -                            | -                                | -                                       | 8,355                                   |
| -                             | -                                     | -                            | -                                | -                                       | 3,156,205                               |
| <u>(77,456)</u>               | <u>(1,000,154)</u>                    | <u>-</u>                     | <u>-</u>                         | <u>-</u>                                | <u>1,075,226</u>                        |
| <u>(77,456)</u>               | <u>(1,000,154)</u>                    | <u>1,278,068</u>             | <u>125,743</u>                   | <u>1,281,272</u>                        | <u>8,359,225</u>                        |
| <u>\$ 360,444</u>             | <u>\$ 9,742</u>                       | <u>\$ 1,278,068</u>          | <u>\$ 125,774</u>                | <u>\$ 1,425,441</u>                     | <u>\$ 10,685,714</u>                    |

# BOROUGH OF POTTSTOWN

## RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2017

---

|   |                            |
|---|----------------------------|
| TOTAL GOVERNMENTAL FUNDS BALANCES   | \$ 8,359,225               |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:  |                            |
| Cost of capital assets  | 45,333,594                 |
| Accumulated depreciation  | (17,970,877)               |
| Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.  |                            |
|   | 2,357,397                  |
| Long-term liabilities applicable to the Borough's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. |                            |
| Interest payable  | (12,998)                   |
| Compensated absences  | (421,928)                  |
| Net OPEB obligation   | (18,615,617)               |
| Capital leases  | (784,395)                  |
| Bonds payable   | (2,460,000)                |
| Note payable  | (353,648)                  |
| Net pension liability   | (7,882,296)                |
| Bond premiums are not recorded as liabilities in the Governmental Funds; however, these items are capitalized and amortized in the government-wide financial statements.  |                            |
|   | (33,324)                   |
| 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.   |                            |
|   | 328,095                    |
| Receivables in the statement of net position that do not provide current financial resources are not reported in the Governmental Funds.  |                            |
|   | <u>128,167</u>             |
| TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES   | \$ <u><u>7,971,395</u></u> |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|  | <u>General Fund</u> | Urban<br><u>Transit Fund</u> | <u>Refuse Fund</u>  |
|--|---------------------|------------------------------|---------------------|
| <b>REVENUES</b>                                      |                     |                              |                     |
| Taxes  | \$ 9,172,968        | \$ -                         | \$ -                |
| Intergovernmental                                    | 1,027,231           | 2,110,318                    | 113,053             |
| Charges for services                                 | 1,474,472           | 335,955                      | 2,520,956           |
| Fees, licenses and permits                           | 538,096             | -                            | 14,935              |
| Court costs and fines                                | 170,469             | -                            | -                   |
| Interest and rents                                   | 18,320              | -                            | 17,462              |
| Miscellaneous  | 38,231              | -                            | 5,934               |
| TOTAL REVENUES                                       | <u>12,439,787</u>   | <u>2,446,273</u>             | <u>2,672,340</u>    |
| <b>EXPENDITURES</b>                                  |                     |                              |                     |
| General government                                   | 3,246,849           | -                            | -                   |
| Public safety  |                     |                              |                     |
| Police department                                    | 7,705,804           | -                            | -                   |
| Fire department                                      | -                   | -                            | -                   |
| Public works   |                     |                              |                     |
| Zoning   | 516,564             | -                            | -                   |
| Highways   | 261,633             | -                            | -                   |
| Sanitation   | -                   | -                            | 2,518,060           |
| Other public works                                   | 6,382               | 2,452,142                    | -                   |
| Culture and recreation                               |                     |                              |                     |
| Recreation   | 10,525              | -                            | -                   |
| Library  | -                   | -                            | -                   |
| Conservation and development                         | 143,783             | -                            | -                   |
| Debt service   |                     |                              |                     |
| Principal  | -                   | -                            | -                   |
| Interest   | -                   | -                            | -                   |
| Bond issuance costs                                  | -                   | -                            | -                   |
| TOTAL EXPENDITURES                                   | <u>11,891,540</u>   | <u>2,452,142</u>             | <u>2,518,060</u>    |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | <u>548,247</u>      | <u>(5,869)</u>               | <u>154,280</u>      |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                     |                              |                     |
| Refunding bonds issue                                | -                   | -                            | -                   |
| Premium on refunding bond issue                      | -                   | -                            | -                   |
| Payments to bond refunding agent                     | -                   | -                            | -                   |
| Proceeds from sale of capital assets                 | 18,934              | 5,869                        | -                   |
| Transfers in   | 34,771              | -                            | -                   |
| Transfers out  | (236,500)           | -                            | (11,598)            |
| Contribution from Pottstown Borough Authority        | 23,173              | -                            | -                   |
| TOTAL OTHER FINANCING SOURCES (USES)                 | <u>(159,622)</u>    | <u>5,869</u>                 | <u>(11,598)</u>     |
| NET CHANGE IN FUND BALANCES                          | 388,625             | -                            | 142,682             |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR         | <u>2,054,537</u>    | <u>1,122,223</u>             | <u>3,043,685</u>    |
| FUND BALANCES (DEFICIT) AT END OF YEAR               | <u>\$ 2,443,162</u> | <u>\$ 1,122,223</u>          | <u>\$ 3,186,367</u> |

*See accompanying notes to the basic financial statements.*

| <u>Borough<br/>Grant Fund</u> | <u>Capital<br/>Operating<br/>Fund</u> | <u>Liquid<br/>Fuels Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------|---------------------------------------|------------------------------|----------------------------------|---|---|
| \$ -                          | \$ -                                  | \$ -                         | \$ 590                           | \$ 2,415,373                            | \$ 11,588,931                           |
| 920,985                       | -                                     | 599,382                      | -                                | 230,669                                 | 5,001,638                               |
| -                             | -                                     | -                            | -                                | 483,345                                 | 4,814,728                               |
| -                             | -                                     | -                            | -                                | -                                       | 553,031                                 |
| -                             | -                                     | -                            | -                                | -                                       | 170,469                                 |
| -                             | -                                     | 5,583                        | 726                              | 34,021                                  | 76,112                                  |
| -                             | -                                     | -                            | -                                | 50,265                                  | 94,430                                  |
| <u>920,985</u>                | <u>-</u>                              | <u>604,965</u>               | <u>1,316</u>                     | <u>3,213,673</u>                        | <u>22,299,339</u>                       |
| -                             | -                                     | -                            | 969                              | -                                       | 3,247,818                               |
| -                             | 119,494                               | -                            | -                                | -                                       | 7,825,298                               |
| -                             | -                                     | -                            | -                                | 1,485,978                               | 1,485,978                               |
| -                             | -                                     | -                            | -                                | -                                       | 516,564                                 |
| 12,711                        | -                                     | 64,730                       | -                                | 303,205                                 | 642,279                                 |
| -                             | -                                     | -                            | -                                | -                                       | 2,518,060                               |
| -                             | -                                     | -                            | -                                | 144,852                                 | 2,603,376                               |
| 282,214                       | -                                     | -                            | -                                | 1,029,492                               | 1,322,231                               |
| -                             | -                                     | -                            | -                                | 179,964                                 | 179,964                                 |
| 625,751                       | -                                     | -                            | -                                | -                                       | 769,534                                 |
| -                             | -                                     | -                            | 203,899                          | 81,616                                  | 285,515                                 |
| -                             | -                                     | -                            | 72,040                           | 23,304                                  | 95,344                                  |
| -                             | -                                     | -                            | 77,777                           | -                                       | 77,777                                  |
| <u>920,676</u>                | <u>119,494</u>                        | <u>64,730</u>                | <u>354,685</u>                   | <u>3,248,411</u>                        | <u>21,569,738</u>                       |
| <u>309</u>                    | <u>(119,494)</u>                      | <u>540,235</u>               | <u>(353,369)</u>                 | <u>(34,738)</u>                         | <u>729,601</u>                          |
| -                             | -                                     | -                            | 2,640,000                        | -                                       | 2,640,000                               |
| -                             | -                                     | -                            | 39,763                           | -                                       | 39,763                                  |
| -                             | -                                     | -                            | (2,600,866)                      | -                                       | (2,600,866)                             |
| -                             | -                                     | -                            | -                                | 5,013                                   | 29,816                                  |
| -                             | 204,000                               | -                            | -                                | 32,500                                  | 271,271                                 |
| -                             | -                                     | -                            | -                                | -                                       | (248,098)                               |
| -                             | -                                     | -                            | 200,000                          | -                                       | 223,173                                 |
| <u>-</u>                      | <u>204,000</u>                        | <u>-</u>                     | <u>278,897</u>                   | <u>37,513</u>                           | <u>355,059</u>                          |
| 309                           | 84,506                                | 540,235                      | (74,472)                         | 2,775                                   | 1,084,660                               |
| <u>(77,765)</u>               | <u>(1,084,660)</u>                    | <u>737,833</u>               | <u>200,215</u>                   | <u>1,278,497</u>                        | <u>7,274,565</u>                        |
| \$ <u>(77,456)</u>            | \$ <u>(1,000,154)</u>                 | \$ <u>1,278,068</u>          | \$ <u>125,743</u>                | \$ <u>1,281,272</u>                     | \$ <u>8,359,225</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, 2017

---

|   |                            |
|---|----------------------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  | \$ 1,084,660               |
| 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 depreciation (\$1,645,042) exceeds capital outlays (\$1,529,575) in the current period.   | (115,467)                  |
| Because some property taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.   | 15,236                     |
| 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. |                            |
| Debt issued   |                            |
| General obligation debt   | (2,679,763)                |
| Repayments  |                            |
| Capital leases  | 120,381                    |
| General obligation debt   | 2,766,300                  |
| Notes payable   | 117,883                    |
| Amortization of bond premiums   | 6,439                      |
| 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  | (36,264)                   |
| Net OPEB obligation   | (1,265,649)                |
| Pension plan expense  | (641,819)                  |
| 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.                            | 3,770                      |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the Governmental Funds.   | <u>(42,722)</u>            |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES   | \$ <u><u>(667,015)</u></u> |

*See accompanying notes to the basic financial statements.*



**BOROUGH OF POTTSTOWN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2017**

|  | <u>Sewer Fund</u>   | <u>Sewer<br/>Collection<br/>Lines Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|--|---------------------|--|--|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                       |                     |  |  |
| <b>CURRENT ASSETS</b>  |                     |  |  |
| Cash and cash equivalents  | \$ 3,421,371        | \$ 204,680                                 | \$ 3,626,051                           |
| Investments  | 3,331,052           | -  | 3,331,052                              |
| Receivables, net   | 1,592,610           | -  | 1,592,610                              |
| Due from other governments   | 49,923              | -  | 49,923                                 |
| Prepaid expenses   | 76,710              | 19,994                                     | 96,704                                 |
| TOTAL CURRENT ASSETS   | <u>8,471,666</u>    | <u>224,674</u>                             | <u>8,696,340</u>                       |
| <b>CAPITAL ASSETS</b>  |                     |  |  |
| Capital assets being depreciated                                       | 6,249,356           | -  | 6,249,356                              |
| Accumulated depreciation   | (5,538,756)         | -  | (5,538,756)                            |
| TOTAL CAPITAL ASSETS   | <u>710,600</u>      | <u>-</u>                                   | <u>710,600</u>                         |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                  |                     |  |  |
| Deferred outflows of resources, pension activity                       | 395,113             | 59,926                                     | 455,039                                |
| TOTAL ASSETS AND DEFERRED<br>OUTFLOWS OF RESOURCES                     | <u>\$ 9,577,379</u> | <u>\$ 284,600</u>                          | <u>\$ 9,861,979</u>                    |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND NET POSITION</b> |                     |  |  |
| <b>CURRENT LIABILITIES</b>   |                     |  |  |
| Accounts payable   | \$ 279,281          | \$ 1,034                                   | \$ 280,315                             |
| Accrued liabilities  | 14,148              | 3,050                                      | 17,198                                 |
| Due to other governments   | 520,879             | -  | 520,879                                |
| TOTAL CURRENT LIABILITIES  | <u>814,308</u>      | <u>4,084</u>                               | <u>818,392</u>                         |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                   |                     |  |  |
| Deferred inflows of resources, pension activity                        | 52,029              | 7,891                                      | 59,920                                 |
| <b>LONG-TERM LIABILITIES</b>   |                     |  |  |
| Compensated absences   | 70,053              | 7,433                                      | 77,486                                 |
| Net pension liability  | 877,967             | 133,160                                    | 1,011,127                              |
| TOTAL LONG-TERM LIABILITIES  | <u>948,020</u>      | <u>140,593</u>                             | <u>1,088,613</u>                       |
| <b>NET POSITION</b>  |                     |  |  |
| Net investment in capital assets                                       | 710,600             | -  | 710,600                                |
| Unrestricted   | 7,052,422           | 132,032                                    | 7,184,454                              |
| TOTAL NET POSITION   | <u>7,763,022</u>    | <u>132,032</u>                             | <u>7,895,054</u>                       |
| TOTAL LIABILITIES, DEFERRED INFLOWS<br>OF RESOURCES AND NET POSITION   | <u>\$ 9,577,379</u> | <u>\$ 284,600</u>                          | <u>\$ 9,861,979</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, 2017**

|   | <u>Sewer Fund</u>   | <u>Sewer<br/>Collection<br/>Lines Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|---|---------------------|--|--|
| <b>OPERATING REVENUES</b>                   |                     |  |  |
| Charges for services                        | \$ 9,506,710        | \$ -                                       | \$ 9,506,710                           |
| <b>OPERATING EXPENSES</b>                   |                     |  |  |
| Sewage disposal                             | 3,887,491           | -  | 3,887,491                              |
| Public works, general service               | 51,711              | -  | 51,711                                 |
| Sewer lines                                 | -                   | 602,463                                    | 602,463                                |
| General expenses                            | 131,821             | -  | 131,821                                |
| Insurance                                   | 63,017              | -  | 63,017                                 |
| Employee benefits                           | 737,833             | -  | 737,833                                |
| General government                          | 9,645               | -  | 9,645                                  |
| Executive                                   | 70,389              | -  | 70,389                                 |
| Financial administration                    | 196,612             | -  | 196,612                                |
| Personnel administration                    | 74,038              | -  | 74,038                                 |
| Building maintenance                        | 54,063              | -  | 54,063                                 |
| Depreciation                                | 40,818              | -  | 40,818                                 |
| Lease payments                              | 2,596,074           | -  | 2,596,074                              |
| TOTAL OPERATING EXPENSES                    | <u>7,913,512</u>    | <u>602,463</u>                             | <u>8,515,975</u>                       |
| OPERATING INCOME (LOSS)                     | <u>1,593,198</u>    | <u>(602,463)</u>                           | <u>990,735</u>                         |
| <b>NONOPERATING REVENUES (EXPENSES)</b>     |                     |  |  |
| Investment earnings                         | 52,880              | 1,095                                      | 53,975                                 |
| Unrealized loss on investments              | 11,649              | -  | 11,649                                 |
| Miscellaneous revenue                       | 124,157             | 116  | 124,273                                |
| Cell tower revenues                         | 13,130              | -  | 13,130                                 |
| Contribution to Pottstown Borough Authority | (1,300,000)         | -  | (1,300,000)                            |
| TOTAL NONOPERATING<br>REVENUES (EXPENSES)   | <u>(1,098,184)</u>  | <u>1,211</u>                               | <u>(1,096,973)</u>                     |
| INCOME (LOSS) BEFORE<br>TRANSFERS           | 495,014             | (601,252)                                  | (106,238)                              |
| <b>TRANSFERS</b>                            |                     |  |  |
| Transfers in (out)                          | (558,844)           | 535,671                                    | (23,173)                               |
| CHANGE IN NET POSITION                      | (63,830)            | (65,581)                                   | (129,411)                              |
| NET POSITION AT BEGINNING OF YEAR           | <u>7,826,852</u>    | <u>197,613</u>                             | <u>8,024,465</u>                       |
| NET POSITION AT END OF YEAR                 | <u>\$ 7,763,022</u> | <u>\$ 132,032</u>                          | <u>\$ 7,895,054</u>                    |

See accompanying notes to the basic financial statements.

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|   | <u>Sewer Fund</u>   | <u>Sewer<br/>Collection<br/>Lines Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|---|---------------------|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                     |  |  |
| Receipts from charges for services                                  | \$ 9,589,816        | \$ -                                       | \$ 9,589,816                           |
| Payment to employees  | (1,879,979)         | (346,310)                                  | (2,226,289)                            |
| Payment to suppliers  | (3,139,191)         | (259,050)                                  | (3,398,241)                            |
| Lease payments  | <u>(2,596,074)</u>  | <u>-</u>                                   | <u>(2,596,074)</u>                     |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES                 | <u>1,974,572</u>    | <u>(605,360)</u>                           | <u>1,369,212</u>                       |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b>          |                     |  |  |
| Transfers from (to) other funds                                     | (558,844)           | 535,671                                    | (23,173)                               |
| Contribution to Pottstown Borough Authority                         | (1,300,000)         | -  | (1,300,000)                            |
| Cell tower revenues   | 13,130              | -  | 13,130                                 |
| Miscellaneous revenue   | <u>124,157</u>      | <u>116</u>                                 | <u>124,273</u>                         |
| NET CASH PROVIDED (USED) BY<br>NONCAPITAL FINANCING<br>ACTIVITIES   | <u>(1,721,557)</u>  | <u>535,787</u>                             | <u>(1,185,770)</u>                     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b> |                     |  |  |
| Purchase of property, plant and equipment                           | <u>(14,329)</u>     | <u>-</u>                                   | <u>(14,329)</u>                        |
| NET CASH USED BY CAPITAL AND<br>RELATED FINANCING ACTIVITIES        | <u>(14,329)</u>     | <u>-</u>                                   | <u>(14,329)</u>                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                     |  |  |
| Investment earnings   | 52,880              | 1,095                                      | 53,975                                 |
| Sale of investments   | <u>430,719</u>      | <u>-</u>                                   | <u>430,719</u>                         |
| NET CASH PROVIDED BY<br>INVESTING ACTIVITIES                        | <u>483,599</u>      | <u>1,095</u>                               | <u>484,694</u>                         |
| NET INCREASE (DECREASE) IN<br>CASH AND CASH EQUIVALENTS             | 736,614             | (68,478)                                   | 668,136                                |
| CASH AND CASH EQUIVALENTS AT BEGINNING<br>OF YEAR                   | <u>2,684,757</u>    | <u>273,158</u>                             | <u>2,957,915</u>                       |
| CASH AND CASH EQUIVALENTS AT<br>END OF YEAR                         | <u>\$ 3,421,371</u> | <u>\$ 204,680</u>                          | <u>\$ 3,626,051</u>                    |

See accompanying notes to the basic financial statements.

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|  | <u>Sewer Fund</u>          | <u>Sewer<br/>Collection<br/>Lines Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|--|----------------------------|--|--|
| <b>RECONCILIATION OF OPERATING INCOME<br/>(LOSS) TO NET CASH PROVIDED (USED)<br/>BY OPERATING ACTIVITIES</b> |                            |  |  |
| Operating income (loss)  | \$ 1,593,198               | \$ (602,463)                               | \$ 990,735                             |
| Adjustments to reconcile operating income<br>(loss) to net cash provided (used) by<br>operating activities   |                            |  |  |
| Depreciation   | 40,818                     | -  | 40,818                                 |
| Pension expense  | 115,639                    | 17,539                                     | 133,178                                |
| (Increase) decrease in   |                            |  |  |
| Receivables  | 55,193                     | -  | 55,193                                 |
| Due from other governments   | 27,913                     | -  | 27,913                                 |
| Prepaid expenses   | 15,146                     | (9,758)                                    | 5,388                                  |
| Increase (decrease) in   |                            |  |  |
| Accounts payable   | 136,927                    | (517)                                      | 136,410                                |
| Accrued liabilities  | 1,798                      | (755)                                      | 1,043                                  |
| Due to other governments   | 37,380                     | -  | 37,380                                 |
| Internal balances  | (55,754)                   | (8,456)                                    | (64,210)                               |
| Compensated absences   | 6,314                      | (950)                                      | 5,364                                  |
|  | <u>6,314</u>               | <u>(950)</u>                               | <u>5,364</u>                           |
| <b>NET CASH PROVIDED (USED) BY<br/>OPERATING ACTIVITIES</b>  | <b>\$ <u>1,974,572</u></b> | <b>\$ <u>(605,360)</u></b>                 | <b>\$ <u>1,369,212</u></b>             |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2017**

|                                  | Pension Trust Funds  |  |
|----------------------------------|----------------------|--|
|                                  | Police<br>Pension    | Non-Uniformed<br>Employees'<br>Pension |
| <b>ASSETS</b>                    |                      |  |
| Cash and cash equivalents        | \$ 1,192,014         | \$ 554,478                             |
| Investments                      | 21,567,821           | 16,199,528                             |
| Receivables                      | -                    | -                                      |
| <b>TOTAL ASSETS</b>              | <b>22,759,835</b>    | <b>16,754,006</b>                      |
| <b>LIABILITIES</b>               |                      |  |
| Escrow deposits                  | -                    | -                                      |
| Accounts payable                 | -                    | -                                      |
| <b>TOTAL LIABILITIES</b>         | <b>-</b>             | <b>-</b>                               |
| <b>NET POSITION</b>              |                      |  |
| Restricted and held in trust for |                      |  |
| Pension benefits                 | 22,759,835           | 16,754,006                             |
| Postemployment benefits          | -                    | -                                      |
| <b>TOTAL NET POSITION</b>        | <b>\$ 22,759,835</b> | <b>\$ 16,754,006</b>                   |

*See accompanying notes to the basic financial statements.*

Post Employment Trust Funds

| <u>OPEB</u>  | <u>Police<br/>Retirement</u> | <u>Agency Fund</u> |
|--------------|------------------------------|--------------------|
| \$ 22,262    | \$ 17,306                    | \$ 192,285         |
| 1,151,507    | 340,125                      | -                  |
| -            | -                            | 58,231             |
| 1,173,769    | 357,431                      | \$ 250,516         |
| -            | -                            | \$ 227,865         |
| -            | -                            | 22,651             |
| -            | -                            | \$ 250,516         |
| -            | -                            |                    |
| 1,173,769    | 357,431                      |                    |
| \$ 1,173,769 | \$ 357,431                   |                    |

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|   | Pension Trust Funds  |                                  | Post Employment Trust Funds |                   |
|---|----------------------|----------------------------------|-----------------------------|-------------------|
|   | Police Pension       | Non-Uniformed Employees' Pension | OPEB                        | Police Retirement |
| <b>ADDITIONS</b>                              |                      |                                  |                             |                   |
| Contributions                                 |                      |                                  |                             |                   |
| Member contributions                          | \$ 230,779           | \$ 298,909                       | \$ -                        | \$ -              |
| Borough contribution                          | 1,049,802            | 343,074                          | 250,000                     | 75,304            |
| <b>TOTAL CONTRIBUTIONS</b>                    | <u>1,280,581</u>     | <u>641,983</u>                   | <u>250,000</u>              | <u>75,304</u>     |
| Investment earnings                           |                      |                                  |                             |                   |
| Net appreciation in fair value of investments | 2,081,371            | 633,830                          | 70,941                      | 13,777            |
| Interest and dividend income                  | 419,924              | 398,804                          | 31,919                      | 7,293             |
| <b>TOTAL INVESTMENT EARNINGS</b>              | <u>2,501,295</u>     | <u>1,032,634</u>                 | <u>102,860</u>              | <u>21,070</u>     |
| Investment expense                            | (9,320)              | (4,360)                          | -                           | (2,842)           |
| <b>INVESTMENT EARNINGS, net</b>               | <u>2,491,975</u>     | <u>1,028,274</u>                 | <u>102,860</u>              | <u>18,228</u>     |
| <b>TOTAL ADDITIONS</b>                        | <u>3,772,556</u>     | <u>1,670,257</u>                 | <u>352,860</u>              | <u>93,532</u>     |
| <b>DEDUCTIONS</b>                             |                      |                                  |                             |                   |
| Benefits                                      | 1,287,009            | 957,464                          | -                           | -                 |
| Advisor fees                                  | 138,386              | 121,425                          | 10,529                      | -                 |
| Miscellaneous                                 | 3,800                | 257                              | -                           | -                 |
| <b>TOTAL DEDUCTIONS</b>                       | <u>1,429,195</u>     | <u>1,079,146</u>                 | <u>10,529</u>               | <u>-</u>          |
| <b>CHANGE IN NET POSITION</b>                 | <u>2,343,361</u>     | <u>591,111</u>                   | <u>342,331</u>              | <u>93,532</u>     |
| NET POSITION AT BEGINNING OF YEAR             | <u>20,416,474</u>    | <u>16,162,895</u>                | <u>831,438</u>              | <u>263,899</u>    |
| <b>NET POSITION AT END OF YEAR</b>            | <u>\$ 22,759,835</u> | <u>\$ 16,754,006</u>             | <u>\$ 1,173,769</u>         | <u>\$ 357,431</u> |

See accompanying notes to the basic financial statements.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

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

**Reporting Entity**

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

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

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

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

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



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

**Fund Accounting**

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

The Borough reports the following major Governmental Funds:

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

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

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

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

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

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

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

The Borough reports the following Proprietary Funds:

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

Additionally, the Borough reports the following fund types:

***Other Governmental Fund Types***

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

***Fiduciary Fund Types***

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

***Basis of Presentation and Accounting***

***Government-Wide Financial Statements*** - The statement of net position and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds and Agency Funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each discretely presented component unit of the Borough and for each function or program of the Borough's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Borough.

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

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

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

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

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

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

**Cash and Cash Equivalents**

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

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

**Investments**

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

**Receivables**

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

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

**Capital Assets**

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Borough only has two items that qualifies for reporting in this category. The first is the deferred loss on refunding reported 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. The second item is the deferred outflow 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 pension plan investments, differences between expected and actual experience of the pension plan and changes in plan assumptions.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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 two items that qualify for reporting in this category. 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. 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 differences between expected and actual experience of the pension 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. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

**Net Position/Fund Balances**

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

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

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

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

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

**Use of Estimates**

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

**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 \$505,287 at December 31, 2017, 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.



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

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

**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 \$8,624,911, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$5,506,083 represents assets established for specific purposes and uses under the Trust Indentures, including debt service, maintenance, capital expenditures and trust administrative expenses.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

**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.

**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.

**Change of Accounting Principle**

During the year ended December 31, 2017, the Borough adopted Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE B - DEPOSITS AND INVESTMENTS**

**Primary Government**

As of December 31, 2017, the Borough had the following investments:

| Investment Type                 | Net Asset Value (NAV) | Fair Market Value    |                     |             |
|---------------------------------|-----------------------|----------------------|---------------------|-------------|
|                                 |                       | Level 1              | Level 2             | Level 3     |
| Common Stocks                   | \$ -                  | \$ 14,188,535        | \$ -                | \$ -        |
| Corporate Bond                  | -                     | -                    | 2,512,271           | -           |
| Exchange Traded Products        | -                     | 14,692,138           | -                   | -           |
| Asset Backed Securities         | -                     | 1,516,477            | -                   | -           |
| U.S. Treasury/Agency Securities | -                     | 474,740              | -                   | -           |
| Government/Municipal Bonds      | -                     | -                    | 4,682,887           | -           |
| Hedge Fund                      | 5,543,454             | -                    | -                   | -           |
|                                 | <u>\$ 5,543,454</u>   | <u>\$ 30,871,890</u> | <u>\$ 7,195,158</u> | <u>\$ -</u> |

Investments in hedge funds are values at net asset value in accordance with GASB Statement No. 79. The Borough has \$5,543,454 invested in various hedge funds.

**Fair Value Measurement** - The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Borough has the following recurring fair value measurements as of December 31, 2017:

Investments in common stock of \$14,188,535, exchange traded products of \$14,692,138, asset backed securities of \$1,516,477 and U.S. Treasury securities of \$474,740 are valued using quoted market prices (Level 1 inputs).

Investments in corporate bonds of \$2,512,271 and government/municipal bonds of \$4,682,887 are valued using significant other observable inputs (Level 2 inputs).

As of December 31, 2017, the Borough's investments had maturities as follows:

| Investment Type                 | Investment Maturities |                     |                     |
|---------------------------------|-----------------------|---------------------|---------------------|
|                                 | Less Than 1 Year      | 1 to 5 Years        | 6 to 10 Years       |
| Common Stocks                   | \$ 14,188,535         | \$ -                | \$ -                |
| Corporate Bond                  | 23,345                | 705,642             | 1,783,284           |
| Exchange Traded Products        | 14,692,138            | -                   | -                   |
| Asset Backed Securities         | -                     | -                   | 1,516,477           |
| U.S. Treasury/Agency Securities | -                     | 192,875             | 281,865             |
| Government/Municipal Bonds      | -                     | 4,351,520           | 331,367             |
| Hedge Fund                      | 5,543,454             | -                   | -                   |
|                                 | <u>\$ 34,447,472</u>  | <u>\$ 5,250,037</u> | <u>\$ 3,912,993</u> |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

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

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

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

As of December 31, 2017, \$11,676,070 of the Borough's total bank balance of \$12,189,603 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 | \$ 10,142,633        |
| Uninsured  | <u>1,533,437</u>     |
|  | <u>\$ 11,676,070</u> |

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

**Component Unit - Pottstown Borough Authority**

As of December 31, 2017, the Authority had the following investments and maturities:

| <u>Investment Type</u>          | <u>Investment Maturities</u> |                         |                          |
|---------------------------------|------------------------------|-------------------------|--------------------------|
|                                 | <u>Less Than<br/>1 Year</u>  | <u>1 to 5<br/>Years</u> | <u>6 to 10<br/>Years</u> |
| U.S. Government Treasury strips | \$ 2,234,271                 | \$ 6,390,640            | \$ -                     |
| U.S. Government securities      | <u>-</u>                     | <u>2,487,660</u>        | <u>-</u>                 |
|                                 | <u>\$ 2,234,271</u>          | <u>\$ 8,878,300</u>     | <u>\$ -</u>              |
| <u>Investment Type</u>          | <u>Fair Value</u>            |                         |                          |
|                                 | <u>Level 1</u>               | <u>Level 2</u>          | <u>Level 3</u>           |
| U.S. Government Treasury strips | \$ 8,624,911                 | \$ -                    | \$ -                     |
| U.S. Government securities      | <u>2,487,660</u>             | <u>-</u>                | <u>-</u>                 |
|                                 | <u>\$ 11,112,571</u>         | <u>\$ -</u>             | <u>\$ -</u>              |

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

**Fair Value Measurement** - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has the following recurring fair value measurements as of December 31, 2017:

Investments in U.S. Government Treasury Strips of \$8,624,911, U.S. Government Securities of \$2,487,660 are valued using quoted market prices (Level 1 inputs).

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

**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, 2017, \$6,872,494 of the Authority's bank balance was exposed to custodial credit risk as follows:

|  |                     |
|--|---------------------|
| Uninsured and collateralized with securities held by the pledging bank's trust department not held in the Authority's name | \$ <u>6,872,494</u> |
|--|---------------------|

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

**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 2017 was 7.303 mills for general purposes, .906 mills for recreation purposes, .001 mills for debt purposes, .337 mills for street light purposes, 1.563 mills for fire services purposes and .230 mills for library purposes, on a total County assessed valuation of \$803,638,619.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE D - RECEIVABLES**

Receivables and the related allowance for doubtful accounts as of December 31, 2017, are as follows:

|  | <u>Gross<br/>Outstanding</u> | <u>Allowance<br/>for Doubtful<br/>Accounts</u> | <u>Net</u>   |
|--|------------------------------|--|--------------|
| <b>GOVERNMENTAL ACTIVITIES/<br/>GOVERNMENTAL FUNDS</b> |                              |  |              |
| Accounts receivable                                    | \$ 1,082,318                 | \$ 133,255                                     | \$ 949,063   |
| Taxes receivable                                       | 412,721                      | -  | 412,721      |
| Due from other governments                             | 782,272                      | -  | 782,272      |
| <b>BUSINESS-TYPE ACTIVITIES/<br/>PROPRIETARY FUNDS</b> |                              |  |              |
| Accounts receivable                                    | \$ 1,779,519                 | \$ 186,909                                     | \$ 1,592,610 |
| Due from other governments                             | 49,923                       | -  | 49,923       |
| <b>DISCRETELY PRESENTED<br/>COMPONENT UNIT</b>         |                              |  |              |
| Accounts receivable                                    | \$ 1,194,337                 | \$ 182,639                                     | \$ 1,011,698 |
| Other receivables                                      | 502,830                      | 470,184  | 32,646       |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE E - CAPITAL ASSETS**

**Primary Government**

A summary of changes in capital assets is as follows:

|  | Balance<br>January 1,<br>2017 | Additions              | Deletions               | Balance<br>December 31,<br>2017 |
|--|-------------------------------|------------------------|-------------------------|---------------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                                 |                               |                        |                         |                                 |
| Capital assets not being depreciated                           |                               |                        |                         |                                 |
| Land   | \$ 2,648,352                  | \$ -                   | \$ -                    | \$ 2,648,352                    |
| Construction in progress                                       | 753,308                       | 905,555                | (365,035)               | 1,293,828                       |
| <b>TOTAL CAPITAL ASSETS NOT<br/>        BEING DEPRECIATED</b>  | <b>3,401,660</b>              | <b>905,555</b>         | <b>(365,035)</b>        | <b>3,942,180</b>                |
| Capital assets being depreciated                               |                               |                        |                         |                                 |
| Land improvements  | 10,411,515                    | -                      | -                       | 10,411,515                      |
| Buildings and building improvements                            | 13,435,635                    | 247,009                | -                       | 13,682,644                      |
| Machinery and equipment  | 10,781,479                    | 614,967                | -                       | 11,396,446                      |
| Infrastructure   | 5,397,927                     | 502,882                | -                       | 5,900,809                       |
| <b>TOTAL CAPITAL ASSETS<br/>        BEING DEPRECIATED</b>      | <b>40,026,556</b>             | <b>1,364,858</b>       | <b>-</b>                | <b>41,391,414</b>               |
| Accumulated depreciation                                       |                               |                        |                         |                                 |
| Land improvements  | (4,777,370)                   | (455,813)              | -                       | (5,233,183)                     |
| Buildings and building improvements                            | (3,518,946)                   | (269,616)              | -                       | (3,788,562)                     |
| Machinery and equipment  | (7,549,564)                   | (781,269)              | -                       | (8,330,833)                     |
| Infrastructure   | (479,955)                     | (138,344)              | -                       | (618,299)                       |
| <b>TOTAL ACCUMULATED<br/>        DEPRECIATION</b>              | <b>(16,325,835)</b>           | <b>(1,645,042)</b>     | <b>-</b>                | <b>(17,970,877)</b>             |
| <b>TOTAL CAPITAL ASSETS<br/>        BEING DEPRECIATED, net</b> | <b>23,700,721</b>             | <b>(280,184)</b>       | <b>-</b>                | <b>23,420,537</b>               |
| <br><b>GOVERNMENTAL ACTIVITIES<br/>CAPITAL ASSETS, net</b>     | <br><b>\$ 27,102,381</b>      | <br><b>\$ 625,371</b>  | <br><b>\$ (365,035)</b> | <br><b>\$ 27,362,717</b>        |
| <br><b>BUSINESS- TYPE ACTIVITIES</b>                           |                               |                        |                         |                                 |
| Capital assets being depreciated                               |                               |                        |                         |                                 |
| Machinery and equipment  | \$ 482,287                    | \$ 14,329              | \$ -                    | \$ 496,616                      |
| Infrastructure   | 5,752,740                     | -                      | -                       | 5,752,740                       |
| <b>TOTAL CAPITAL ASSETS<br/>        BEING DEPRECIATED</b>      | <b>6,235,027</b>              | <b>14,329</b>          | <b>-</b>                | <b>6,249,356</b>                |
| Accumulated depreciation                                       |                               |                        |                         |                                 |
| Machinery and equipment  | (428,369)                     | (11,151)               | -                       | (439,520)                       |
| Infrastructure   | (5,069,569)                   | (29,667)               | -                       | (5,099,236)                     |
| <b>TOTAL ACCUMULATED<br/>        DEPRECIATION</b>              | <b>(5,497,938)</b>            | <b>(40,818)</b>        | <b>-</b>                | <b>(5,538,756)</b>              |
| <b>TOTAL CAPITAL ASSETS<br/>        BEING DEPRECIATED, net</b> | <b>737,089</b>                | <b>(26,489)</b>        | <b>-</b>                | <b>710,600</b>                  |
| <br><b>BUSINESS- TYPE ACTIVITIES<br/>CAPITAL ASSETS, net</b>   | <br><b>\$ 737,089</b>         | <br><b>\$ (26,489)</b> | <br><b>\$ -</b>         | <br><b>\$ 710,600</b>           |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Depreciation expense was charged to functions/programs of the primary government as follows:

|                                 |                                      |                            |
|---------------------------------|--------------------------------------|----------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>  |                                      |                            |
| General government              |                                      | \$ 307,700                 |
| Public safety                   |                                      | 226,896                    |
| Public works                    |                                      | 957,195                    |
| Culture and recreation          |                                      | <u>153,251</u>             |
|                                 | <b>TOTAL GOVERNMENTAL ACTIVITIES</b> | <b>\$ <u>1,645,042</u></b> |
| <b>BUSINESS-TYPE ACTIVITIES</b> |                                      |                            |
| Public works, sewer services    |                                      | <b>\$ <u>40,818</u></b>    |

**Component Unit - Pottstown Borough Authority**

A summary of changes in capital assets is as follows:

|   | Balance<br>January 1,<br>2017 | Additions                  | Deletions                    | Balance<br>December 31,<br>2017 |
|---|-------------------------------|----------------------------|------------------------------|---------------------------------|
| <b>SEWER FUND</b>                           |                               |                            |                              |                                 |
| Capital assets not being depreciated        |                               |                            |                              |                                 |
| Land  | \$ 36,650                     | \$ -                       | \$ -                         | \$ 36,650                       |
| Construction in progress                    | 2,583,400                     | 3,430,434                  | (2,486,366)                  | 3,527,468                       |
|   | <u>2,620,050</u>              | <u>3,430,434</u>           | <u>(2,486,366)</u>           | <u>3,564,118</u>                |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED  |                               |                            |                              |                                 |
|   | 2,620,050                     | 3,430,434                  | (2,486,366)                  | 3,564,118                       |
| Capital assets being depreciated            |                               |                            |                              |                                 |
| Buildings and building improvements         | 34,191,579                    | 142,584                    | -                            | 34,334,163                      |
| Machinery and equipment                     | 1,480,096                     | -                          | -                            | 1,480,096                       |
| Infrastructure                              | 6,386,189                     | 2,343,783                  | -                            | 8,729,972                       |
|   | <u>42,057,864</u>             | <u>2,486,367</u>           | <u>-</u>                     | <u>44,544,231</u>               |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED      |                               |                            |                              |                                 |
|   | 42,057,864                    | 2,486,367                  | -                            | 44,544,231                      |
| Accumulated depreciation                    |                               |                            |                              |                                 |
| Buildings and building improvements         | (15,530,068)                  | (2,070,389)                | -                            | (17,600,457)                    |
| Machinery and equipment                     | (741,900)                     | (98,936)                   | -                            | (840,836)                       |
| Infrastructure                              | (2,337,580)                   | (155,993)                  | -                            | (2,493,573)                     |
|   | <u>(18,609,548)</u>           | <u>(2,325,318)</u>         | <u>-</u>                     | <u>(20,934,866)</u>             |
| TOTAL ACCUMULATED DEPRECIATION              |                               |                            |                              |                                 |
|   | (18,609,548)                  | (2,325,318)                | -                            | (20,934,866)                    |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net |                               |                            |                              |                                 |
|   | <u>23,448,316</u>             | <u>161,049</u>             | <u>-</u>                     | <u>23,609,365</u>               |
| <b>SEWER FUND CAPITAL ASSETS, net</b>       |                               |                            |                              |                                 |
|   | <b>\$ <u>26,068,366</u></b>   | <b>\$ <u>3,591,483</u></b> | <b>\$ <u>(2,486,366)</u></b> | <b>\$ <u>27,173,483</u></b>     |



**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

|  | Balance<br>January 1,<br>2017 | Additions               | Deletions                 | Balance<br>December 31,<br>2017 |
|--|-------------------------------|-------------------------|---------------------------|---------------------------------|
| <b>WATER FUND</b>                                      |                               |                         |                           |                                 |
| Capital assets not being depreciated                   |                               |                         |                           |                                 |
| Land   | \$ 330,179                    | \$ -                    | \$ -                      | \$ 330,179                      |
| Construction in progress                               | 3,794,600                     | 2,818,149               | (2,977,940)               | 3,634,809                       |
| <b>TOTAL CAPITAL ASSETS<br/>NOT BEING DEPRECIATED</b>  | <b>4,124,779</b>              | <b>2,818,149</b>        | <b>(2,977,940)</b>        | <b>3,964,988</b>                |
| Capital assets being depreciated                       |                               |                         |                           |                                 |
| Machinery and equipment                                | 1,213,621                     | -                       | -                         | 1,213,621                       |
| Infrastructure   | 34,314,345                    | 2,977,940               | -                         | 37,292,285                      |
| <b>TOTAL CAPITAL ASSETS<br/>BEING DEPRECIATED</b>      | <b>35,527,966</b>             | <b>2,977,940</b>        | <b>-</b>                  | <b>38,505,906</b>               |
| Accumulated depreciation                               |                               |                         |                           |                                 |
| Machinery and equipment                                | (827,998)                     | (71,604)                | -                         | (899,602)                       |
| Infrastructure   | (12,002,284)                  | (973,079)               | -                         | (12,975,363)                    |
| <b>TOTAL ACCUMULATED<br/>DEPRECIATION</b>              | <b>(12,830,282)</b>           | <b>(1,044,683)</b>      | <b>-</b>                  | <b>(13,874,965)</b>             |
| <b>TOTAL CAPITAL ASSETS<br/>BEING DEPRECIATED, net</b> | <b>22,697,684</b>             | <b>1,933,257</b>        | <b>-</b>                  | <b>24,630,941</b>               |
| <br><b>WATER FUND CAPITAL<br/>ASSETS, net</b>          | <br><b>\$ 26,822,463</b>      | <br><b>\$ 4,751,406</b> | <br><b>\$ (2,977,940)</b> | <br><b>\$ 28,595,929</b>        |

Depreciation expense was \$2,325,318 in the Sewer Fund and \$1,044,683 in the Water Fund for the year ended December 31, 2017.

**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)**

**Summary of Significant Accounting Policies**

Police Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Borough's Police Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due as required by the Act For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

**Plan Description**

**Plan Administration** - The Borough administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers. The plan is part of the Borough's financial reporting entity and is included in the Borough's financial statements as a Pension Trust Fund. The plan issues separate, stand-alone financial statements which are available at the Borough of Pottstown office.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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, 2017, plan membership consisted of the following:

|  |                  |
|--|------------------|
| Inactive plan members or beneficiaries currently receiving benefits <sup>1</sup> | 44 <sup>1</sup>  |
| Inactive plan members entitled to but not yet receiving benefits                 | 2                |
| Active plan members  | <u>41</u>        |
|  | <u><u>87</u></u> |

<sup>1</sup>Includes five members in the DROP.

**Benefits Provided** - The plan provides retirement benefits, as well as death and disability benefits. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average compensation. Final average compensation is the employee's total compensation over the last 36 months of credited service. The service increment benefit is \$100 per month after 26 years of service, increases to \$200 per month after 28 years of service, increases to \$300 per month after 30 years of service, increases to \$400 per month after 32 years of service and increases to \$500 per month in excess of 34 years of service. Early retirement may be taken after 20 years of service. Participants are 100% vested after 12 years of service.

In the event of the death of a member after normal retirement date, the surviving spouse (or the surviving minor children in the absence of a surviving spouse) shall receive at least 50% of the monthly benefit the deceased member had been receiving or was eligible to receive. If the benefit is higher than 50%, it is reduced to 50% of the monthly benefit as of the first day of the month in which the surviving spouse is remarried.

If a member should die without a spouse, each dependent child of the member under the age of 18 (or 24 if attending college) shall receive a proportional share of the 50% monthly benefit. In the event of the death of a member prior to normal retirement date, the surviving spouse (or the surviving minor children in the absence of a surviving spouse) shall receive 100% of compensation payable the year of death including base wages, longevity, college incentive and residency bonuses if killed or dying in the line of service.

Disability benefits are 75% of the compensation earned in the 365 days preceding the incident that caused the disability, including all earned paid leave which can be cashed in. Upon the member's death, 100% of the pension he/she had been receiving will be continued to the surviving spouse (or minor children).

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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 \$1,049,802 to the plan for the year ended December 31, 2017.

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, 2017:

| <u>Asset Class</u>   | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity      | 50%                      |
| International equity | 0%                       |
| Fixed income         | 50%                      |
| Real estate          | 0%                       |
| Cash                 | 0%                       |
|                      | <u>100%</u>              |

**Concentrations** - No individual investments exceed 5% of the plan's total investments.

**Rate of Return** - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 11.54%. 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, 2017**

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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, 2017, were as follows:

|   |                       |
|---|-----------------------|
| Total pension liability   | \$ 28,503,837         |
| Plan fiduciary net position   | <u>(22,759,835)</u>   |
| NET PENSION LIABILITY   | <u>\$ 5,744,002</u>   |
| <br>Plan fiduciary net position as a percentage of the<br>total pension liability | <br><br><u>79.85%</u> |

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

|  |                                      |
|--|--------------------------------------|
| Inflation                              | 3.00%                                |
| Salary increases                       | 4.00% (average, including inflation) |
| Investment rate of return              | 7.00%                                |
| Postretirement cost-of-living increase | 2.00%                                |

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

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

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u>   | <u>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</u> |
|----------------------|---|
| Domestic equity      | 5.50% - 7.50%   |
| International equity | 4.50% - 6.50%   |
| Fixed income         | 1.00% - 3.00%   |
| Real estate          | 4.50% - 6.50%   |
| Cash                 | 0.00% - 1.00%   |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE F - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

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

**Changes in the Net Pension Liability**

|                               | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(a)-(b) |
|-------------------------------|-----------------------------------|---------------------------------------|-------------------------------------|
| Balances at December 31, 2016 | \$ 25,765,861                     | \$ 20,416,474                         | \$ 5,349,387                        |
| Changes for the year:         |                                   |                                       |                                     |
| Service costs                 | 658,364                           | -                                     | 658,364                             |
| Interest costs                | 1,889,022                         | -                                     | 1,889,022                           |
| Changes for experience        | 911,428                           | -                                     | 911,428                             |
| Changes for assumptions       | 566,171                           | -                                     | 566,171                             |
| Contributions                 |                                   |                                       |                                     |
| Employer                      | -                                 | 1,049,802                             | (1,049,802)                         |
| Member                        | -                                 | 230,779                               | (230,779)                           |
| Net investment income         | -                                 | 2,363,069                             | (2,363,069)                         |
| Benefit payments              | (1,287,009)                       | (1,287,009)                           | -                                   |
| Administrative expenses       | -                                 | (13,280)                              | 13,280                              |
| Net changes                   | <u>2,737,976</u>                  | <u>2,343,361</u>                      | <u>394,615</u>                      |
| Balances at December 31, 2017 | <u>\$ 28,503,837</u>              | <u>\$ 22,759,835</u>                  | <u>\$ 5,744,002</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%<br>Decrease<br>(6.0%) | Current<br>Discount<br>Rate (7.0%) | 1%<br>Increase<br>(8.0%) |
|---------------------------------|--------------------------|------------------------------------|--------------------------|
| Borough's net pension liability | \$ <u>8,876,558</u>      | \$ <u>5,744,002</u>                | \$ <u>2,398,479</u>      |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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, 2017, the Borough recognized pension expense of \$1,409,984. At December 31, 2017, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience            | \$ 1,140,721                                  | \$ -   |
| Changes in assumptions                                       | 495,400                                       | 1,262,683                                    |
| Differences between projected and actual investment earnings | <u>1,148,375</u>                              | <u>-</u>                                     |
|  | <u>\$ 2,784,496</u>                           | <u>\$ 1,262,683</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<br/>December 31,</u> |            |
|-------------------------------------|------------|
| 2018                                | \$ 508,560 |
| 2019                                | 508,559    |
| 2020                                | 21,528     |
| 2021                                | (36,577)   |
| 2022                                | 150,344    |
| Thereafter                          | 369,399    |

**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, 2017, five members have elected to participate in the DROP. The total DROP account balance is \$405,989 at December 31, 2017.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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 Beirne Wealth Consulting.

**Plan Membership** - At December 31, 2017, plan membership consisted of the following:

|   |                   |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 47                |
| Inactive plan members entitled to but not yet receiving benefits    | 7                 |
| Active plan members   | <u>85</u>         |
|   | <u><u>139</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**  
**DECEMBER 31, 2017**

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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, 2017:

| <u>Asset Class</u>   | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity      | 50%                      |
| International equity | 0%                       |
| Fixed income         | 50%                      |
| Real estate          | 0%                       |
| Cash                 | 0%                       |
|                      | <u>100%</u>              |

**Concentrations** - No individual investments exceed 5% of the plan's total investments.

**Rate of Return** - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 5.57%. 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, 2017, were as follows:

**Primary Government - Governmental Activities:**

|  |                     |
|--|---------------------|
| Total pension liability  | \$ 9,844,304        |
| Plan fiduciary net position  | <u>(7,706,010)</u>  |
| NET PENSION LIABILITY  | <u>\$ 2,138,294</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>78.28%</u>       |



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

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

|  |                     |
|--|---------------------|
| Total pension liability  | \$ 4,655,040        |
| Plan fiduciary net position  | <u>(3,643,913)</u>  |
| NET PENSION LIABILITY  | <u>\$ 1,011,127</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>78.28%</u>       |

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

|  |                     |
|--|---------------------|
| Total pension liability  | \$ 6,903,629        |
| Plan fiduciary net position  | <u>(5,404,083)</u>  |
| NET PENSION LIABILITY  | <u>\$ 1,499,546</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>78.28%</u>       |

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

|  |                                      |
|--|--------------------------------------|
| Inflation                              | 3.00%                                |
| Salary increases                       | 4.00% (average, including inflation) |
| Investment rate of return              | 6.50%                                |
| Postretirement cost-of-living increase | 0.00%                                |

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

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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, 2017 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u>   | <u>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</u> |
|----------------------|---|
| Domestic equity      | 5.50% - 7.50%   |
| International equity | 4.50% - 6.50%   |
| Fixed income         | 1.00% - 3.00%   |
| Real estate          | 4.50% - 6.50%   |
| Cash                 | 0.00% - 1.00%   |

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

***Primary Government - Governmental Activities - Changes in Net Pension Liability:***

|                               | Total Pension<br>Liability<br><u>(a)</u> | Plan Fiduciary<br>Net Position<br><u>(b)</u> | Net Pension<br>Liability<br><u>(a)-(b)</u> |
|-------------------------------|--|--|--|
| Balances at December 31, 2016 | \$ 8,937,809                             | \$ 7,434,129                                 | \$ 1,503,680                               |
| Changes for the year:         |  |  |  |
| Service costs                 | 221,284                                  | -  | 221,284                                    |
| Interest costs                | 614,265                                  | -  | 614,265                                    |
| Changes for experience        | 132,764                                  | -  | 132,764                                    |
| Changes for assumptions       | 378,568                                  | -  | 378,568                                    |
| Contributions                 |  |  |  |
| Employer                      | -  | 157,797                                      | (157,797)                                  |
| Member                        | -  | 137,483                                      | (137,483)                                  |
| Net investment income         | -  | 424,793                                      | (424,793)                                  |
| Benefit payments              | (440,386)                                | (440,386)                                    | -  |
| Administrative expenses       | -  | (7,806)                                      | 7,806                                      |
| Net changes                   | <u>906,495</u>                           | <u>271,881</u>                               | <u>634,614</u>                             |
| Balances at December 31, 2017 | <u>\$ 9,844,304</u>                      | <u>\$ 7,706,010</u>                          | <u>\$ 2,138,294</u>                        |

***Primary Government - Business-Type Activities - Changes in Net Pension Liability:***

|                               | Total Pension<br>Liability<br><u>(a)</u> | Plan Fiduciary<br>Net Position<br><u>(b)</u> | Net Pension<br>Liability<br><u>(a)-(b)</u> |
|-------------------------------|--|--|--|
| Balances at December 31, 2016 | \$ 4,226,389                             | \$ 3,515,349                                 | \$ 711,040                                 |
| Changes for the year:         |  |  |  |
| Service costs                 | 104,638                                  | -  | 104,638                                    |
| Interest costs                | 290,465                                  | -  | 290,465                                    |
| Changes for experience        | 62,780                                   | -  | 62,780                                     |
| Changes for assumptions       | 179,012                                  | -  | 179,012                                    |
| Contributions                 |  |  |  |
| Employer                      | -  | 74,617                                       | (74,617)                                   |
| Member                        | -  | 65,011                                       | (65,011)                                   |
| Net investment income         | -  | 200,870                                      | (200,870)                                  |
| Benefit payments              | (208,244)                                | (208,244)                                    | -  |
| Administrative expenses       | -  | (3,690)                                      | 3,690                                      |
| Net changes                   | <u>428,651</u>                           | <u>128,564</u>                               | <u>300,087</u>                             |
| Balances at December 31, 2017 | <u>\$ 4,655,040</u>                      | <u>\$ 3,643,913</u>                          | <u>\$ 1,011,127</u>                        |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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<br>Liability<br><u>(a)</u> | Plan Fiduciary<br>Net Position<br><u>(b)</u> | Net Pension<br>Liability<br><u>(a)-(b)</u> |
|-------------------------------|--|--|--|
| Balances at December 31, 2016 | \$ 6,267,920                             | \$ 5,213,417                                 | \$ 1,054,503                               |
| Changes for the year:         |  |  |  |
| Service costs                 | 155,183                                  | -  | 155,183                                    |
| Interest costs                | 430,773                                  | -  | 430,773                                    |
| Changes for experience        | 93,105                                   | -  | 93,105                                     |
| Changes for assumptions       | 265,482                                  | -  | 265,482                                    |
| Contributions                 |  |  |  |
| Employer                      | -  | 110,660                                      | (110,660)                                  |
| Member                        | -  | 96,415                                       | (96,415)                                   |
| Net investment income         | -  | 297,899                                      | (297,899)                                  |
| Benefit payments              | (308,834)                                | (308,834)                                    | -  |
| Administrative expenses       | -  | (5,474)                                      | 5,474                                      |
| Net changes                   | <u>635,709</u>                           | <u>190,666</u>                               | <u>445,043</u>                             |
| Balances at December 31, 2017 | <u>\$ 6,903,629</u>                      | <u>\$ 5,404,083</u>                          | <u>\$ 1,499,546</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%<br>Decrease<br><u>(5.5%)</u> | Current<br>Discount<br>Rate (6.5%) | 1%<br>Increase<br><u>(7.5%)</u> |
|-----------------------|---------------------------------|------------------------------------|---------------------------------|
| Net pension liability | \$ <u>3,114,197</u>             | \$ <u>2,138,294</u>                | \$ <u>1,309,431</u>             |

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

|                       | 1%<br>Decrease<br><u>(5.5%)</u> | Current<br>Discount<br>Rate (6.5%) | 1%<br>Increase<br><u>(7.5%)</u> |
|-----------------------|---------------------------------|------------------------------------|---------------------------------|
| Net pension liability | \$ <u>1,472,292</u>             | \$ <u>1,011,127</u>                | \$ <u>619,057</u>               |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

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

|                       | 1%<br>Decrease<br>(5.5%) | Current<br>Discount<br>Rate (6.5%) | 1%<br>Increase<br>(7.5%) |
|-----------------------|--------------------------|------------------------------------|--------------------------|
| Net pension liability | \$ <u>2,184,236</u>      | \$ <u>1,499,546</u>                | \$ <u>918,409</u>        |

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** - For the year ended December 31, 2017, the Borough recognized pension expense of \$647,213 and the Authority recognized pension expense of \$308,183. At December 31, 2017, 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<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience            | \$ 110,637                                    | \$ 126,716                                   |
| Changes in assumptions                                       | 315,473                                       | -  |
| Differences between projected and actual investment earnings | <u>536,190</u>                                | <u>-</u>                                     |
|  | \$ <u>962,300</u>                             | \$ <u>126,716</u>                            |

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

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience            | \$ 52,316                                     | \$ 59,920                                    |
| Changes in assumptions                                       | 149,177                                       | -  |
| Differences between projected and actual investment earnings | <u>253,546</u>                                | <u>-</u>                                     |
|  | \$ <u>455,039</u>                             | \$ <u>59,920</u>                             |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

*Component Unit - Pottstown Borough Authority:*

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience            | \$ 77,588                                     | \$ 88,863                                    |
| Changes in assumptions                                       | 221,235                                       |  |
| Differences between projected and actual investment earnings | <u>376,020</u>                                | <u>-</u>                                     |
|  | <u>\$ 674,843</u>                             | <u>\$ 88,863</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<br/>December 31,</u> |            |
|-------------------------------------|------------|
| 2018                                | \$ 460,512 |
| 2019                                | 736,011    |
| 2020                                | 226,343    |
| 2021                                | 208,531    |
| 2022                                | 185,286    |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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, 2016, plan membership consisted of the following:

|                      |                   |
|----------------------|-------------------|
| Active participants  | 126               |
| Retired participants | <u>53</u>         |
|                      | <u><u>179</u></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 2017, the Borough contributed \$325,304 to the plan for current premiums, using the implicit rate subsidy.

**Benefits Provided**

The plan provides the following benefits:

Police:

- For officers who retired prior to January 1, 1999, the Borough will contribute the medical and prescription drug premium at retirement until Medicare age. The retiree will be responsible for paying any increases in premium. Upon reaching Medicare age, the retiree receives free coverage.
- Officers who retire on or after January 1, 1999 contribute 2% of base pay while actively working. Upon retirement medical, prescription drug and dental coverage become non-contributory. Retired officers and their spouse are also eligible to receive Medicare Part B premium reimbursement.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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, 2017:

| <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, 2017, the annual money-weighted rate of return on plan investments, net of plan expenses was 14.72%. 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, 2017**

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

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

The components of the net pension liability of the Borough at December 31, 2017, were as follows:

|   |                      |
|---|----------------------|
| Total OPEB liability  | \$ 30,315,032        |
| Plan fiduciary net position   | <u>(1,531,200)</u>   |
| NET OPEB LIABILITY  | <u>\$ 28,783,832</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | <u>5.05%</u>         |

***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 (2.52%) or 1% point higher (4.52%) than the current discount rate:

|                              | <u>1%<br/>Decrease<br/>(2.52%)</u> | <u>Current<br/>Discount<br/>Rate (3.52%)</u> | <u>1%<br/>Increase<br/>(4.52%)</u> |
|------------------------------|------------------------------------|--|------------------------------------|
| Borough's net OPEB liability | \$ <u>34,949,183</u>               | \$ <u>28,783,832</u>                         | \$ <u>23,984,517</u>               |

***Sensitivity of the Net OPEB Liability to Changes on the Healthcare Cost Trend Rates***

The following presents the net OPEB Liability of the Borough, as well as what the Borough's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% point lower (5.00%) or 1% point higher (7.00%) than the current healthcare cost trend rate:

|                              | <u>1%<br/>Decrease<br/>(5.0%)</u> | <u>Healthcare<br/>Cost Trend<br/>Rate (6.0%)</u> | <u>1%<br/>Increase<br/>(7.0%)</u> |
|------------------------------|-----------------------------------|--|-----------------------------------|
| Borough's net OPEB liability | \$ <u>22,908,401</u>              | \$ <u>28,783,832</u>                             | \$ <u>36,669,693</u>              |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

**Annual OPEB Cost and Net OPEB Obligation**

The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the Borough's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Borough's net OPEB obligation to the plan are as follows:

|  |    |                          |
|--|----|--------------------------|
| Normal cost  | \$ | 927,277                  |
| Amortization of unfunded actuarial accrued liability |    | 1,372,682                |
| ANNUAL REQUIRED CONTRIBUTION (ARC)                   |    | <u>2,299,959</u>         |
| Interest on net OPEB obligation                      |    | 910,873                  |
| Adjustment to ARC                                    |    | <u>(1,161,007)</u>       |
| ANNUAL OPEB EXPENSE                                  |    | 2,049,825                |
| Net OPEB contributions during the year               |    | <u>(784,176)</u>         |
| ESTIMATED INCREASE IN OPEB OBLIGATION                |    | 1,265,649                |
| Net OPEB obligation at beginning of year             |    | <u>17,349,968</u>        |
| NET OPEB OBLIGATION AT END OF YEAR                   | \$ | <u><u>18,615,617</u></u> |

| <u>Year</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage<br/>of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|-------------|-----------------------------|---|--------------------------------|
| 2015        | \$ 2,210,629                | 20%   | \$ 15,792,372                  |
| 2016        | 2,072,282                   | 25%   | 17,349,968                     |
| 2017        | 2,049,825                   | 38%   | 18,615,617                     |

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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

**Funded Status and Funding Progress**

As of January 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$21,444,227 and the actuarial value of assets was \$931,003, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,513,224. The covered payroll (annual payroll of active employees covered by the plan) was \$8,952,740, and the ratio of the UAAL to the covered payroll was 229.13%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.52% investment rate of return, which is the expected long-term investment yield on the investments that are expected to be used to finance the payments of benefits, a salary increase of 4.0% per year, a health care cost trend rate of 6.5% initially, reduced by .5% per year to an ultimate rate of 5.5% in 2018 through 2020.

The actuarial valuation assumes 100% participant election of Police and 50% participant election of Management for health coverage. The actuarial valuation also assumes 100% participant election for life insurance. The UML is being amortized using the level percent method over a period of 30 years on an open group basis.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE I - LONG-TERM LIABILITIES**

**Primary Government**

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

|  | Balance<br>Outstanding<br>January 1,<br>2017 | Additions           | Deletions             | Balance<br>Outstanding<br>December 31,<br>2017 | Due Within<br>One Year |
|--|--|---------------------|-----------------------|--|------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>             |  |                     |                       |  |                        |
| <b>BONDS AND NOTES PAYABLE</b>             |  |                     |                       |  |                        |
| Bond premiums                              | \$ -   | \$ 39,763           | \$ (6,439)            | \$ 33,324                                      | \$ -                   |
| General Obligation Note,<br>Series of 2012 | 2,586,300                                    | -                   | (2,586,300)           | -  | -                      |
| General Obligation Bond,<br>Series of 2017 | -  | 2,640,000           | (180,000)             | 2,460,000                                      | 195,000                |
| Promissory Note, Series of 2015            | 471,531                                      | -                   | (117,883)             | 353,648  | 117,883                |
| <b>TOTAL BONDS AND<br/>NOTES PAYABLE</b>   | <b>3,057,831</b>                             | <b>2,679,763</b>    | <b>(2,890,622)</b>    | <b>2,846,972</b>                               | <b>312,883</b>         |
| <b>OTHER LIABILITIES</b>                   |  |                     |                       |  |                        |
| Capital leases                             | 904,776                                      | -                   | (120,381)             | 784,395  | 125,619                |
| Net OPEB obligation                        | 17,349,968                                   | 2,049,825           | (784,176)             | 18,615,617                                     | -                      |
| Compensated absences                       | 385,664                                      | 36,264              | -                     | 421,928  | -                      |
| Pension liability                          | 6,853,067                                    | 1,029,229           | -                     | 7,882,296                                      | -                      |
| <b>TOTAL OTHER LIABILITIES</b>             | <b>25,493,475</b>                            | <b>3,115,318</b>    | <b>(904,557)</b>      | <b>27,704,236</b>                              | <b>125,619</b>         |
| <b>TOTAL GOVERNMENTAL<br/>ACTIVITIES</b>   | <b>\$ 28,551,306</b>                         | <b>\$ 5,795,081</b> | <b>\$ (3,795,179)</b> | <b>\$ 30,551,208</b>                           | <b>\$ 438,502</b>      |
| <b>BUSINESS-TYPE ACTIVITIES</b>            |  |                     |                       |  |                        |
| Compensated absences                       | \$ 72,122                                    | \$ 5,364            | \$ -                  | \$ 77,486                                      | \$ -                   |
| Pension liability                          | 711,040                                      | 300,087             | -                     | 1,011,127                                      | -                      |
| <b>TOTAL BUSINESS-TYPE<br/>ACTIVITIES</b>  | <b>\$ 783,162</b>                            | <b>\$ 305,451</b>   | <b>\$ -</b>           | <b>\$ 1,088,613</b>                            | <b>\$ -</b>            |

For governmental activities, other liabilities are generally liquidated by the General Fund.

**General Obligations Bonds, Series of 2017** - The General Obligation Bonds, Series of 2017, were issued January 26, 2017, in the amount of \$2,640,000 to current refund the Borough's General Obligation Bonds, Series of 2012 and pay the costs of issuing the bonds. The refunding resulted in an economic gain of \$112,793, and a decrease in future cash flows of \$56,561.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u> | <u>Maturing<br/>June 1,</u> | <u>Interest Rate</u> |
|------------------------------------|----------------------------|-----------------------------|----------------------|
| \$ 195,000                         | \$ 63,481                  | 2018                        | 1.05%                |
| 200,000                            | 59,458                     | 2019                        | 3.00%                |
| 210,000                            | 52,258                     | 2020                        | 4.00%                |
| 220,000                            | 43,658                     | 2021                        | 4.00%                |
| 225,000                            | 37,008                     | 2022                        | 2.00%                |
| 230,000                            | 32,285                     | 2023                        | 2.15%                |
| 235,000                            | 27,110                     | 2024                        | 2.30%                |
| 240,000                            | 21,528                     | 2025                        | 2.40%                |
| 245,000                            | 15,524                     | 2026                        | 2.55%                |
| 250,000                            | 9,088                      | 2027                        | 2.65%                |
| <u>210,000</u>                     | <u>2,888</u>               | 2028                        | 2.75%                |
| <u>\$ 2,460,000</u>                | <u>\$ 364,286</u>          |                             |                      |

**General Obligations Bonds, Series of 2012** – The General Obligation Bonds, Series of 2012, were issued April 13, 2012, in the amount of \$4,360,000 to refund the Borough’s General Obligation Bonds, Series of 1999, the acquisition and construction of a new Borough Garage, other capital projects and pay the costs of issuing the bonds. The bonds were fully refunded during the year with the issuance of the General Obligation Bonds, Series of 2017.

**Promissory Note, Series of 2015** – The Borough issued an interest-free Promissory Note with Montgomery County, Pennsylvania in the amount of \$589,413 to be repaid in five annual installments of \$117,882.76 each year through January 25, 2020; for the purpose of providing funds for the ability to purchase, from Motorola, emergency radio equipment at a discount.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

**Component Unit - Pottstown Borough Authority**

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

|   | Balance<br>Outstanding<br>January 1,<br>2017 | Additions                  | Deletions                    | Balance<br>Outstanding<br>December 31,<br>2017 | Due Within<br>One Year     |
|---|--|----------------------------|------------------------------|--|----------------------------|
| <b>SEWER FUND</b>                                   |  |                            |                              |  |                            |
| <b>BONDS AND NOTES PAYABLE</b>                      |  |                            |                              |  |                            |
| Bond premiums                                       | \$ 1,145,022                                 | \$ -                       | \$ (230,419)                 | \$ 914,603                                     | \$ -                       |
| Bonds payable                                       |  |                            |                              |  |                            |
| Guaranteed Sewer Bonds,<br>Series of 1991           | 9,365,690                                    | 632,883 (1)                | (2,260,000)                  | 7,738,573                                      | 2,265,000                  |
| Guaranteed Sewer Revenue<br>Bonds                   |  |                            |                              |  |                            |
| Series of 2012                                      | 3,165,000                                    | -                          | (315,000)                    | 2,850,000                                      | 320,000                    |
| Series of 2016                                      | 9,830,000                                    | -                          | (1,845,000)                  | 7,985,000                                      | 1,860,000                  |
|   | <u>23,505,712</u>                            | <u>632,883</u>             | <u>(4,650,419)</u>           | <u>19,488,176</u>                              | <u>4,445,000</u>           |
| <b>TOTAL SEWER FUND BONDS<br/>AND NOTES PAYABLE</b> | <b>\$ <u>23,505,712</u></b>                  | <b>\$ <u>632,883</u></b>   | <b>\$ <u>(4,650,419)</u></b> | <b>\$ <u>19,488,176</u></b>                    | <b>\$ <u>4,445,000</u></b> |
| <b>WATER FUND</b>                                   |  |                            |                              |  |                            |
| <b>BONDS AND NOTES PAYABLE</b>                      |  |                            |                              |  |                            |
| Bond premium  | \$ 274,978                                   | \$ -                       | \$ (91,659)                  | \$ 183,319                                     | \$ -                       |
| Bond discount                                       | (7,128)                                      | -                          | 1,106                        | (6,022)  | -                          |
| Bonds payable                                       |  |                            |                              |  |                            |
| Guaranteed Water Revenue<br>Bonds                   |  |                            |                              |  |                            |
| Series of 2007                                      | 2,750,063                                    | -                          | (197,427)                    | 2,552,636                                      | 206,552                    |
| Series of 2012                                      | 5,140,000                                    | -                          | (70,000)                     | 5,070,000                                      | 75,000                     |
| Series A of 2016                                    | 3,825,000                                    | -                          | (1,250,000)                  | 2,575,000                                      | 1,255,000                  |
|   | <u>11,982,913</u>                            | <u>-</u>                   | <u>(1,607,980)</u>           | <u>10,374,933</u>                              | <u>1,536,552</u>           |
| <b>TOTAL WATER FUND BONDS<br/>AND NOTES PAYABLE</b> | <b>\$ <u>11,982,913</u></b>                  | <b>\$ <u>-</u></b>         | <b>\$ <u>(1,607,980)</u></b> | <b>\$ <u>10,374,933</u></b>                    | <b>\$ <u>1,536,552</u></b> |
| <b>OTHER LIABILITIES</b>                            |  |                            |                              |  |                            |
| Compensated absences                                | 44,916                                       | 192                        | -                            | 45,108   | -                          |
| Pension liability                                   | 1,054,503                                    | 445,043                    | -                            | 1,499,546                                      | -                          |
|   | <u>1,099,419</u>                             | <u>445,235</u>             | <u>-</u>                     | <u>1,544,654</u>                               | <u>-</u>                   |
| <b>TOTAL WATER FUND<br/>OTHER LIABILITIES</b>       | <b>\$ <u>1,099,419</u></b>                   | <b>\$ <u>445,235</u></b>   | <b>\$ <u>-</u></b>           | <b>\$ <u>1,544,654</u></b>                     | <b>\$ <u>-</u></b>         |
| <b>TOTAL WATER FUND<br/>LONG-TERM LIABILITIES</b>   | <b>\$ <u>13,082,332</u></b>                  | <b>\$ <u>445,235</u></b>   | <b>\$ <u>(1,607,980)</u></b> | <b>\$ <u>11,919,587</u></b>                    | <b>\$ <u>1,536,552</u></b> |
| <b>TOTALS SEWER AND WATER FUNDS</b>                 | <b>\$ <u>36,588,044</u></b>                  | <b>\$ <u>1,078,118</u></b> | <b>\$ <u>(6,258,399)</u></b> | <b>\$ <u>31,407,763</u></b>                    | <b>\$ <u>5,981,552</u></b> |

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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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 \$9,040,000 as of December 31, 2017. 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, 2017, the value of the escrow account included in cash and investments held by the trustee was \$8,624,911. The portion of the 1991 accreted value bonds for which funds are escrowed is presented below:

| <u>Total Bonds<br/>Outstanding</u> | <u>Portion of<br/>Bonds<br/>Outstanding<br/>for Which<br/>Funds are<br/>Escrowed</u> | <u>Maturing<br/>May 1, and<br/>November 1,</u> | <u>Interest<br/>Rate</u> |
|------------------------------------|--|--|--------------------------|
| \$ 2,147,863                       | \$ 2,147,863   | 2018   | 7.05%                    |
| 1,997,661                          | 1,997,661  | 2019   | 7.05%                    |
| 1,857,800                          | 1,857,800  | 2020   | 7.05%                    |
| <u>1,735,249</u>                   | <u>1,735,249</u>   | 2021   | 7.05%                    |
| <u>\$ 7,738,573</u>                | <u>\$ 7,738,573</u>  |  |                          |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Bonds outstanding at gross maturity value are as follows:

|  |                                |
|--|--------------------------------|
| TOTAL GROSS MATURITY VALUE OUTSTANDING AT<br>DECEMBER 31, 2017 | \$ 9,040,000                   |
| Discount   | <u>(1,301,427)</u>             |
| <br>TOTAL ACCRETED VALUE AT DECEMBER 31,<br>2017               | <br>\$ <u><u>7,738,573</u></u> |

**Water Revenue Bonds, Series of 2007**

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

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u>   | <u>Maturing<br/>November 1,</u> | <u>Interest<br/>Rate</u> |
|------------------------------------|------------------------------|---------------------------------|--------------------------|
| \$ 206,552                         | \$ 114,322                   | 2018                            | 4.57%                    |
| 216,100                            | 104,775                      | 2019                            | 4.57%                    |
| 226,088                            | 94,786                       | 2020                            | 4.57%                    |
| 236,538                            | 84,336                       | 2021                            | 4.57%                    |
| 247,472                            | 73,403                       | 2022                            | 4.57%                    |
| <u>1,419,886</u>                   | <u>184,486</u>               | 2023 to 2027                    | 4.57%                    |
| <br>\$ <u><u>2,552,636</u></u>     | <br>\$ <u><u>656,108</u></u> |                                 |                          |

**Sewer Revenue Bonds of 2012**

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



**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u> | <u>Maturing<br/>November 1,</u> | <u>Interest Rate</u> |
|------------------------------------|----------------------------|---------------------------------|----------------------|
| \$ 320,000                         | \$ 83,813                  | 2018                            | 2.50%                |
| 330,000                            | 75,813                     | 2019                            | 2.50%                |
| 340,000                            | 67,563                     | 2020                            | 2.75%                |
| 350,000                            | 58,213                     | 2021                            | 3.00%                |
| 360,000                            | 47,713                     | 2022                            | 3.00%                |
| <u>1,150,000</u>                   | <u>75,101</u>              | 2023 to 2025                    | 3.125% to 3.25%      |
| <u>\$ 2,850,000</u>                | <u>\$ 408,216</u>          |                                 |                      |

**Water Revenue Bonds of 2012**

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

The bonds bear an interest rate ranging from 2.00% to 2.55% over the life of the bonds. The bonds will fully mature in December 2023.

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u> | <u>Maturing<br/>November 1,</u> | <u>Interest Rate</u> |
|------------------------------------|----------------------------|---------------------------------|----------------------|
| \$ 75,000                          | \$ 115,060                 | 2018                            | 2.00%                |
| 75,000                             | 113,560                    | 2019                            | 2.00%                |
| 1,470,000                          | 112,060                    | 2020                            | 2.05%                |
| 1,505,000                          | 81,925                     | 2021                            | 2.25%                |
| 1,535,000                          | 48,063                     | 2022                            | 2.45%                |
| <u>410,000</u>                     | <u>10,455</u>              | 2023                            | 2.55%                |
| <u>\$ 5,070,000</u>                | <u>\$ 481,123</u>          |                                 |                      |

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

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

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u> | <u>Maturing<br/>November 1,</u> | <u>Interest Rate</u> |
|------------------------------------|----------------------------|---------------------------------|----------------------|
| \$ 1,860,000                       | \$ 399,250                 | 2018                            | 5.00%                |
| 1,945,000                          | 306,250                    | 2019                            | 5.00%                |
| 2,035,000                          | 209,000                    | 2020                            | 5.00%                |
| <u>2,145,000</u>                   | <u>107,250</u>             | 2021                            | 5.00%                |
| <u>\$ 7,985,000</u>                | <u>\$ 1,021,750</u>        |                                 |                      |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

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

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

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

The outstanding bonds are summarized as follows:

| <u>Total Bonds<br/>Outstanding</u> | <u>Annual<br/>Interest</u> | <u>Maturing<br/>November 1,</u> | <u>Interest Rate</u> |
|------------------------------------|----------------------------|---------------------------------|----------------------|
| \$ 1,255,000                       | \$ 128,750                 | 2018                            | 5.00%                |
| <u>1,320,000</u>                   | <u>66,000</u>              | 2019                            | 5.00%                |
| <u>\$ 2,575,000</u>                | <u>\$ 194,750</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, 2017**

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**NOTE J - CAPITAL LEASE**

The Borough entered into a capital lease in 2008 in order to finance the purchase of equipment. The amount of the capital lease at inception was \$596,584. Payments on the lease began in March 2008 and continue through September 2017. In 2009, the Borough entered into a capital lease in order to finance the purchase of several capital assets. Payments on the lease began in July 2010 and will continue through July 2019. In 2015, the Borough entered into a capital lease in order to finance the purchase of a custom KME Panther 79' Aerial Fire Truck. Payments on the lease began in October 2015 and will continue through April 2025.

The assets acquired through the capital leases are as follows:

|                          |                    |
|--------------------------|--------------------|
| Equipment                | \$ 1,930,803       |
| Accumulated depreciation | <u>(1,266,593)</u> |
|                          | <u>\$ 664,210</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>                         |                          |
|---|--------------------------|
| 2018  | \$ 150,652               |
| 2019  | 150,651                  |
| 2020  | 104,831                  |
| 2021  | 104,831                  |
| 2022  | 104,831                  |
| 2023 to 2025  | <u>262,077</u>           |
|   | 877,873                  |
| Amount representing interest                            | <u>(93,478)</u>          |
| <b>TOTAL PRESENT VALUE OF MINIMUM<br/>LEASE PAYMENT</b> | <b>\$ <u>784,395</u></b> |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE K - CONDUIT DEBT - COMPONENT UNIT - POTTSTOWN BOROUGH AUTHORITY**

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

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

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

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

**NOTE L - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables balances consist of the following at December 31, 2017:

|                           | <u>Due from<br/>Other Funds</u> | <u>Due to<br/>Other Funds</u> |
|---------------------------|---------------------------------|-------------------------------|
| <b>GOVERNMENTAL FUNDS</b> |                                 |                               |
| General Fund              | \$ 1,105,967                    | \$ -                          |
| Capital Operating Fund    | -                               | 1,009,896                     |
| Grant Fund                | -                               | 96,071                        |
|                           | <u>\$ 1,105,967</u>             | <u>\$ 1,105,967</u>           |

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE L - INTERFUND BALANCES AND TRANSFERS (Continued)**

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                | \$ 236,500           | \$ 34,771           |
| Refuse Fund                 | 11,598               | -                   |
| Capital Operating Fund      | -                    | 204,000             |
| Other Governmental Funds    | -                    | 32,500              |
| TOTAL GOVERNMENTAL FUNDS    | <u>248,098</u>       | <u>271,271</u>      |
| <b>PROPRIETARY FUNDS</b>    |                      |                     |
| Sewer Fund                  | 573,173              | 14,329              |
| Sewer Collection Lines Fund | 14,329               | 550,000             |
| TOTAL PROPRIETARY FUNDS     | <u>587,502</u>       | <u>564,329</u>      |
| TOTAL TRANSFERS             | <u>\$ 835,600</u>    | <u>\$ 835,600</u>   |

**NOTE M - RISK MANAGEMENT**

The Borough maintains an insurance policy for workers' compensation insurance. Insurance premiums are developed based on employee job descriptions, rate factors and payroll costs for the year. The policy has an audit performed each year, and the Borough may be required to pay an additional premium as a result of the audit, or the Borough may be entitled to a refund as a result of the audit. Such year-end adjustments due to the payroll audit have historically not been significant. In addition, the Borough is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; health care costs; and natural disasters for which the Borough carries commercial insurance. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage for each of the past three years.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE N - MANAGEMENT AGREEMENT**

Effective November 15, 1990, and as amended with the First Supplemental Management Agreement dated July 15, 1998, and the Second Supplemental Management Agreement dated August 19, 2007, the Borough entered into a management agreement with the Authority to manage the day-to-day operations of the water system to include repair, maintenance and administration. The management agreement expires in 2025. The management fee to be paid to the Borough will be the greater of \$100,000 or a sum equal to 6.1% of the aggregate of the budgeted annual costs of operating and maintaining the water system and 115% of the average annual debt service requirements on water revenue bonds. Management fee income for the year ended December 31, 2017, was \$386,744.

**NOTE O - SEWER AGREEMENTS**

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

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

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

| <u>Year Ending</u><br><u>December 31,</u> |                      |
|---|----------------------|
| 2018                                      | \$ 2,663,063         |
| 2019                                      | 2,657,063            |
| 2020                                      | 2,651,563            |
| 2021                                      | 2,660,463            |
| 2022                                      | 407,713              |
| 2023 to 2025                              | <u>1,225,101</u>     |
|   | <u>\$ 12,264,966</u> |

Payments made by the Borough to the Authority in 2017 were \$2,596,074.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE P - GUARANTEES**

The Borough is guarantor of the following Sewer Revenue Bonds and the Water Revenue Bonds of the Authority:

|                                | <u>Year of<br/>Issue</u> | <u>Outstanding at<br/>December 31,<br/>2017</u> |
|--------------------------------|--------------------------|---|
| Guaranteed Sewer Revenue Bonds | 1991                     | \$ 7,738,573                                    |
| Guaranteed Sewer Revenue Bonds | 2012                     | 2,850,000                                       |
| Guaranteed Sewer Revenue Bonds | 2016                     | 7,985,000                                       |
| Guaranteed Water Revenue Bonds | 2007                     | 2,552,636                                       |
| Guaranteed Water Revenue Bonds | 2012                     | 5,070,000                                       |
| Guaranteed Water Revenue Bonds | 2016 A                   | 2,575,000                                       |

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

**NOTE Q - INTERGOVERNMENTAL SEWER CHARGES**

The Borough has agreements with Lower Pottsgrove, West Pottsgrove and Upper Pottsgrove Townships to treat sewage flows emanating from these townships. Annual sewer system costs are allocated to each township based on each party's share of the metered flows. Intergovernmental sewer charges for the year ended December 31, 2017, which represent 9.3% of the total sewer operating revenues, were as follows:

|                           |                   |
|---------------------------|-------------------|
| Lower Pottsgrove Township | \$ 519,553        |
| Upper Pottsgrove Township | 118,374           |
| West Pottsgrove Township  | <u>242,543</u>    |
|                           | <u>\$ 880,470</u> |

**NOTE R - LEGAL COMPLIANCE**

For the year ended December 31, 2017, the Borough Grant Fund had a deficit fund balance of \$77,456 and the Borough Capital Operating Fund had a deficit fund balance of \$1,000,154.



**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE S - SALE OF WATER DISTRIBUTION FACILITY - COMPONENT UNIT - POTTSTOWN BOROUGH AUTHORITY**

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

The amount recognized as revenue under this agreement in 2017 was \$345,582.

**NOTE T - EMERGENCY RADIO PROJECT**

During the year ended December 31, 2015, Montgomery County established the Emergency Radio Project (the "Project"). Under the terms of the Project, the County has entered into a bulk purchasing agreement with Motorola Solutions, Inc. with respect to emergency radio equipment and services. The County has, in turn, made available to municipalities within the County, the ability to purchase, from Motorola, emergency radio equipment at a discount and has further agreed to provide interest free loans to municipalities, from funds borrowed by the County from the Delaware Valley Regional Finance Authority ("DelVal"), that wish to participate in the Project. For the year ended December 31, 2015, the Borough elected to participate in the Project and entered into a Promissory Note with the County in the amount of \$589,413 to be repaid in five annual installments of \$117,882.76 each.

As of December 31, 2017, the purchased equipment was received by the Borough and, therefore, the asset and the related liability are reflected in these financial statements.

The Borough also entered into several loan agreements with surrounding fire companies and ambulance squads to supply the respective agencies with emergency radios. The total loans to agencies at inception were \$213,611. These loans are interest-free with a final maturity date of March 2020. The notes receivable balance as of December 31, 2017 was \$128,167 and is included under the caption of Accounts Receivable on the statement of net position.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|  | Budgeted Amounts    |                     | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------------------|---|
|  | Original            | Final               |                                 |   |
| <b>REVENUES</b>                                  |                     |                     |                                 |   |
| Taxes  | \$ 8,635,176        | \$ 8,642,526        | \$ 9,172,968                    | \$ 530,442  |
| Intergovernmental                                | 946,446             | 942,646             | 1,027,231                       | 84,585  |
| Charges for services                             | 1,587,001           | 1,556,501           | 1,474,472                       | (82,029)  |
| Fees, licenses and permits                       | 511,152             | 519,152             | 538,096                         | 18,944  |
| Court costs and fines                            | 181,265             | 170,401             | 170,469                         | 68  |
| Interest and rents                               | 2,201               | 11,865              | 18,320                          | 6,455   |
| Miscellaneous                                    | 14,004              | 22,504              | 38,231                          | 15,727  |
| <b>TOTAL REVENUES</b>                            | <b>11,877,245</b>   | <b>11,865,595</b>   | <b>12,439,787</b>               | <b>574,192</b>  |
| <b>EXPENDITURES</b>                              |                     |                     |                                 |   |
| General government                               | 2,867,901           | 2,835,201           | 3,246,849                       | (411,648)   |
| Public safety, police department                 | 7,417,692           | 7,444,492           | 7,705,804                       | (261,312)   |
| Public works                                     |                     |                     |                                 |   |
| Zoning   | 599,083             | 601,083             | 516,564                         | 84,519  |
| Highways   | 729,465             | 725,315             | 261,633                         | 463,682   |
| Other public works                               | 6,580               | 6,580               | 6,382                           | 198   |
| Culture and recreation, recreation               | 10,525              | 10,525              | 10,525                          | -   |
| Conservation and development                     | 218,500             | 228,900             | 143,783                         | 85,117  |
| <b>TOTAL EXPENDITURES</b>                        | <b>11,849,746</b>   | <b>11,852,096</b>   | <b>11,891,540</b>               | <b>(39,444)</b>   |
| <b>EXCESS OF REVENUES<br/>OVER EXPENDITURES</b>  | <b>27,499</b>       | <b>13,499</b>       | <b>548,247</b>                  | <b>534,748</b>  |
| <b>OTHER FINANCING SOURCES (USES)</b>            |                     |                     |                                 |   |
| Proceeds from sale of capital assets             | 5,000               | 19,000              | 18,934                          | (66)  |
| Transfer to budgetary reserve                    | 204,000             | 204,000             | -                               | (204,000)   |
| Transfers in                                     | 1                   | 1                   | 34,771                          | 34,770  |
| Transfers out                                    | (236,500)           | (236,500)           | (236,500)                       | -   |
| Contribution from Pottstown<br>Borough Authority | -                   | -                   | 23,173                          | 23,173  |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>  | <b>(27,499)</b>     | <b>(13,499)</b>     | <b>(159,622)</b>                | <b>(146,123)</b>  |
| <b>NET CHANGE IN FUND<br/>BALANCE</b>            | <b>-</b>            | <b>-</b>            | <b>388,625</b>                  | <b>388,625</b>  |
| <b>FUND BALANCE AT BEGINNING OF<br/>YEAR</b>     | <b>2,054,537</b>    | <b>2,054,537</b>    | <b>2,054,537</b>                | <b>-</b>  |
| <b>FUND BALANCE AT END<br/>OF YEAR</b>           | <b>\$ 2,054,537</b> | <b>\$ 2,054,537</b> | <b>\$ 2,443,162</b>             | <b>\$ 388,625</b>                                       |

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**URBAN TRANSIT FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|  | Budgeted Amounts    |                     | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------------------|---|
|  | Original            | Final               |                                 |   |
| REVENUES                                       |                     |                     |                                 |   |
| Intergovernmental                              | \$ 2,107,862        | \$ 2,107,862        | \$ 2,110,318                    | \$ 2,456  |
| Charges for services                           | 335,955             | 335,955             | 335,955                         | -   |
| Interest and rents                             | 2,456               | 2,456               | -                               | (2,456)   |
| TOTAL REVENUES                                 | <u>2,446,273</u>    | <u>2,446,273</u>    | <u>2,446,273</u>                | <u>-</u>  |
| EXPENDITURES                                   |                     |                     |                                 |   |
| Public works, other public works               | <u>2,452,142</u>    | <u>2,452,142</u>    | <u>2,452,142</u>                | <u>-</u>  |
| DEFICIENCY OF<br>REVENUES OVER<br>EXPENDITURES | (5,869)             | (5,869)             | (5,869)                         | -   |
| OTHER FINANCING SOURCES                        |                     |                     |                                 |   |
| Proceeds from sale of fixed assets             | <u>5,869</u>        | <u>5,869</u>        | <u>5,869</u>                    | <u>-</u>  |
| NET CHANGE IN FUND<br>BALANCE                  | -                   | -                   | -                               | -   |
| FUND BALANCE AT BEGINNING OF<br>YEAR           | <u>1,122,223</u>    | <u>1,122,223</u>    | <u>1,122,223</u>                | <u>-</u>  |
| FUND BALANCE AT END<br>OF YEAR                 | <u>\$ 1,122,223</u> | <u>\$ 1,122,223</u> | <u>\$ 1,122,223</u>             | <u>\$ -</u>   |

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**REFUSE FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|   | Budgeted Amounts    |                     | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------------------|---|
|   | Original            | Final               |                                 |   |
| REVENUES  |                     |                     |                                 |   |
| Intergovernmental                                       | \$ 60,000           | \$ 66,000           | \$ 113,053                      | \$ 47,053   |
| Charges for services                                    | 2,826,075           | 2,831,075           | 2,520,956                       | (310,119)   |
| Fees, licenses and permits                              | 9,000               | 11,010              | 14,935                          | 3,925   |
| Interest and rents                                      | 200                 | 3,400               | 17,462                          | 14,062  |
| Miscellaneous   | 6,101               | 6,101               | 5,934                           | (167)   |
| TOTAL REVENUES  | <u>2,901,376</u>    | <u>2,917,586</u>    | <u>2,672,340</u>                | <u>(245,246)</u>  |
| EXPENDITURES  |                     |                     |                                 |   |
| Public works, sanitation                                | <u>3,178,587</u>    | <u>3,178,587</u>    | <u>2,518,060</u>                | <u>660,527</u>  |
| EXCESS (DEFICIENCY)<br>OF REVENUES OVER<br>EXPENDITURES | <u>(277,211)</u>    | <u>(261,001)</u>    | <u>154,280</u>                  | <u>415,281</u>  |
| OTHER FINANCING SOURCES (USES)                          |                     |                     |                                 |   |
| Proceeds from sale of capital assets                    | 1                   | 1                   | -                               | (1)   |
| Transfers out   | -                   | -                   | (11,598)                        | (11,598)  |
| Transfer to budgetary reserve                           | 277,210             | 261,000             | -                               | (261,000)   |
| TOTAL OTHER FINANCING<br>SOURCES (USES)                 | <u>277,211</u>      | <u>261,001</u>      | <u>(11,598)</u>                 | <u>(272,599)</u>  |
| NET CHANGE IN FUND<br>BALANCE                           | -                   | -                   | 142,682                         | 142,682   |
| FUND BALANCE AT BEGINNING OF<br>YEAR                    | <u>3,043,685</u>    | <u>3,043,685</u>    | <u>3,043,685</u>                | <u>-</u>  |
| FUND BALANCE AT END<br>OF YEAR                          | <u>\$ 3,043,685</u> | <u>\$ 3,043,685</u> | <u>\$ 3,186,367</u>             | <u>\$ 142,682</u>                                       |

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**BOROUGH GRANT FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|  | Budgeted Amounts   |                    | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|---------------------------------|---|
|  | Original           | Final              |                                 |   |
| <b>REVENUES</b>  |                    |                    |                                 |   |
| Intergovernmental  | \$ 2,889,001       | \$ 2,891,501       | \$ 920,985                      | \$ (1,970,516)  |
| Interest and rents   | 1                  | 1                  | -                               | (1)   |
| Miscellaneous  | 1                  | 1                  | -                               | (1)   |
| <b>TOTAL REVENUES</b>  | <u>2,889,003</u>   | <u>2,891,503</u>   | <u>920,985</u>                  | <u>(1,970,518)</u>                                      |
| <b>EXPENDITURES</b>  |                    |                    |                                 |   |
| Public works, highways   | 150,000            | 150,000            | 12,711                          | 137,289   |
| Culture and recreation, recreation                               | 62,502             | 62,504             | 282,214                         | (219,710)   |
| Conservation and development                                     | 2,679,002          | 2,679,000          | 625,751                         | 2,053,249   |
| <b>TOTAL EXPENDITURES</b>  | <u>2,891,504</u>   | <u>2,891,504</u>   | <u>920,676</u>                  | <u>1,970,828</u>  |
| <b>EXCESS (DEFICIENCY)<br/>OF REVENUES OVER<br/>EXPENDITURES</b> | (2,501)            | (1)                | 309                             | 310   |
| <b>OTHER FINANCING SOURCES</b>                                   |                    |                    |                                 |   |
| Transfers in   | <u>2,501</u>       | <u>1</u>           | <u>-</u>                        | <u>(1)</u>  |
| <b>NET CHANGE IN FUND<br/>BALANCE</b>                            | -                  | -                  | 309                             | 309   |
| <b>FUND DEFICIT AT BEGINNING OF<br/>YEAR</b>                     |                    |                    |                                 |   |
|  | <u>(77,765)</u>    | <u>(77,765)</u>    | <u>(77,765)</u>                 | <u>-</u>  |
| <b>FUND DEFICIT AT END<br/>OF YEAR</b>                           | <u>\$ (77,765)</u> | <u>\$ (77,765)</u> | <u>\$ (77,456)</u>              | <u>\$ 309</u>   |

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL OPERATING FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|   | Budgeted Amounts    |                     | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------------------|---|
|   | Original            | Final               |                                 |   |
| REVENUES                                    |                     |                     |                                 |   |
| Interest and rents                          | \$ 1                | \$ 1                | \$ -                            | \$ (1)  |
| Miscellaneous                               | 600                 | 600                 | -                               | (600)   |
| TOTAL REVENUES                              | 601                 | 601                 | -                               | (601)   |
| EXPENDITURES                                |                     |                     |                                 |   |
| Public safety, police department            | 204,000             | 204,000             | 119,494                         | 84,506  |
| DEFICIENCY OF REVENUES<br>OVER EXPENDITURES | (203,399)           | (203,399)           | (119,494)                       | 83,905  |
| OTHER FINANCING SOURCES (USES)              |                     |                     |                                 |   |
| Transfers in                                | 204,000             | 204,000             | 204,000                         | -   |
| Transfer to budgetary reserve               | (601)               | (601)               | -                               | 601   |
| TOTAL OTHER FINANCING<br>SOURCES (USES)     | 203,399             | 203,399             | 204,000                         | 601   |
| NET CHANGE IN FUND<br>BALANCE               | -                   | -                   | 84,506                          | 84,506  |
| FUND DEFICIT AT BEGINNING OF<br>YEAR        | (570,115)           | (570,115)           | (1,084,660)                     | -   |
| FUND DEFICIT AT END<br>OF YEAR              | <u>\$ (570,115)</u> | <u>\$ (570,115)</u> | <u>\$ (1,000,154)</u>           | <u>\$ 84,506</u>  |

*See accompanying notes to the budgetary comparison schedules.*

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LIQUID FUELS FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|   | Budgeted Amounts  |                   | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|---------------------------------|---|
|   | Original          | Final             |                                 |   |
| REVENUES  |                   |                   |                                 |   |
| Intergovernmental                                       | \$ 594,559        | 599,559           | 599,382                         | (177)   |
| Interest and rents                                      | 50                | 3,050             | 5,583                           | 2,533   |
| Miscellaneous   | 2                 | 2                 | -                               | (2)   |
| TOTAL REVENUES  | <u>594,611</u>    | <u>602,611</u>    | <u>604,965</u>                  | <u>2,354</u>  |
| EXPENDITURES  |                   |                   |                                 |   |
| Public works, highways                                  | <u>794,611</u>    | <u>794,611</u>    | <u>64,730</u>                   | <u>729,881</u>  |
| EXCESS (DEFICIENCY)<br>OF REVENUES OVER<br>EXPENDITURES | (200,000)         | (192,000)         | 540,235                         | 732,235   |
| OTHER FINANCING SOURCES                                 |                   |                   |                                 |   |
| Transfer to budgetary reserve                           | <u>200,000</u>    | <u>192,000</u>    | <u>-</u>                        | <u>(192,000)</u>  |
| NET CHANGE IN FUND<br>BALANCE                           | -                 | -                 | 540,235                         | 540,235   |
| FUND BALANCE AT BEGINNING OF<br>YEAR                    | <u>737,833</u>    | <u>737,833</u>    | <u>737,833</u>                  | <u>-</u>  |
| FUND BALANCE AT END<br>OF YEAR                          | <u>\$ 737,833</u> | <u>\$ 737,833</u> | <u>\$ 1,278,068</u>             | <u>\$ 540,235</u>                                       |

See accompanying notes to the budgetary comparison schedules.



**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|  | Budgeted Amounts  |                   | Actual<br>Amounts<br>GAAP Basis | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|---------------------------------|---|
|  | Original          | Final             |                                 |   |
| REVENUES   |                   |                   |                                 |   |
| Taxes  | \$ 1,290          | \$ 1,290          | \$ 590                          | \$ (700)  |
| Interest and rents                               | 60                | 60                | 726                             | 666   |
| TOTAL REVENUES                                   | <u>1,350</u>      | <u>1,350</u>      | <u>1,316</u>                    | <u>(34)</u>   |
| EXPENDITURES                                     |                   |                   |                                 |   |
| General government                               | 1,100             | 1,100             | 969                             | 131   |
| Debt service                                     |                   |                   |                                 |   |
| Principal  | 123,500           | 200,250           | 203,899                         | (3,649)   |
| Interest   | -                 | -                 | 72,040                          | (72,040)  |
| Bond issuance costs                              | -                 | -                 | 77,777                          | (77,777)  |
| TOTAL EXPENDITURES                               | <u>124,600</u>    | <u>201,350</u>    | <u>354,685</u>                  | <u>(153,335)</u>  |
| DEFICIENCY OF REVENUES<br>OVER EXPENDITURES      | <u>(123,250)</u>  | <u>(200,000)</u>  | <u>(353,369)</u>                | <u>(153,369)</u>  |
| OTHER FINANCING SOURCES (USES)                   |                   |                   |                                 |   |
| Refunding bonds issue                            | -                 | -                 | 2,640,000                       | 2,640,000   |
| Premium on refunding bond issue                  | -                 | -                 | 39,763                          | 39,763  |
| Payments to bond refunding agent                 | -                 | -                 | (2,600,866)                     | (2,600,866)   |
| Transfer to budgetary reserve                    | (76,750)          | -                 | -                               | -   |
| Contribution from Pottstown<br>Borough Authority | <u>200,000</u>    | <u>200,000</u>    | <u>200,000</u>                  | <u>-</u>  |
| TOTAL OTHER FINANCING<br>SOURCES (USES)          | <u>123,250</u>    | <u>200,000</u>    | <u>278,897</u>                  | <u>78,897</u>   |
| NET CHANGE IN FUND<br>BALANCE                    | -                 | -                 | (74,472)                        | (74,472)  |
| FUND BALANCE AT BEGINNING OF<br>YEAR             | <u>200,215</u>    | <u>200,215</u>    | <u>200,215</u>                  | <u>-</u>  |
| FUND BALANCE AT END<br>OF YEAR                   | <u>\$ 200,215</u> | <u>\$ 200,215</u> | <u>\$ 125,743</u>               | <u>\$ (74,472)</u>                                      |

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
YEAR ENDED DECEMBER 31, 2017

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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, 2017**

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

For the year ended December 31, 2017, expenditures exceeded appropriations in the following:

|                        | <u>General<br/>Fund</u> | <u>Grant<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> |
|------------------------|-------------------------|-----------------------|----------------------------------|
| General government     | \$ 411,648              | \$ -                  | \$ -                             |
| Public safety          |                         |                       |                                  |
| Police department      | 261,312                 | -                     | -                                |
| Culture and recreation | -                       | 219,711               | -                                |
| Debt service           | -                       | -                     | 153,466                          |
|                        | <u>\$ 672,960</u>       | <u>\$ 219,711</u>     | <u>\$ 153,466</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 FOUR YEARS**

|   | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|----------------------|----------------------|
| <b>TOTAL PENSION LIABILITY</b>  |                      |                      |                      |                      |
| Service cost  | \$ 658,364           | \$ 659,676           | \$ 640,962           | \$ 429,517           |
| Interest  | 1,889,022            | 1,718,460            | 1,598,743            | 1,468,395            |
| Changes for experience  | 911,428              | -                    | 549,157              | -                    |
| Changes for assumptions   | 566,171              | -                    | (823,998)            | -                    |
| Benefit payments  | <u>(1,287,009)</u>   | <u>(1,054,439)</u>   | <u>(1,123,544)</u>   | <u>(916,485)</u>     |
| NET CHANGE IN TOTAL PENSION LIABILITY   | 2,737,976            | 1,323,697            | 841,320              | 981,427              |
| Total pension liability, beginning  | <u>25,765,861</u>    | <u>24,442,164</u>    | <u>23,600,844</u>    | <u>22,619,417</u>    |
| <b>TOTAL PENSION LIABILITY, ENDING (a)</b>  | <u>\$ 28,503,837</u> | <u>\$ 25,765,861</u> | <u>\$ 24,442,164</u> | <u>\$ 23,600,844</u> |
| <b>PLAN FIDUCIARY NET POSITION</b>  |                      |                      |                      |                      |
| Contributions   |                      |                      |                      |                      |
| Employer  | \$ 1,049,802         | \$ 903,774           | \$ 880,611           | \$ 865,432           |
| Member  | 230,779              | 210,020              | 199,230              | 190,437              |
| Net investment income (loss)  | 2,363,069            | 1,062,369            | (919,895)            | 900,202              |
| Benefit payments, including refunds of member contributions                       | <u>(1,287,009)</u>   | <u>(1,054,439)</u>   | <u>(1,123,544)</u>   | <u>(916,485)</u>     |
| Administrative expenses   | <u>(13,280)</u>      | <u>(3,600)</u>       | <u>(87,748)</u>      | <u>-</u>             |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION   | 2,343,361            | 1,118,124            | (1,051,346)          | 1,039,586            |
| Plan fiduciary net position, beginning  | <u>20,416,474</u>    | <u>19,298,350</u>    | <u>20,349,696</u>    | <u>19,310,110</u>    |
| <b>PLAN FIDUCIARY NET POSITION, ENDING (b)</b>                                    | <u>\$ 22,759,835</u> | <u>\$ 20,416,474</u> | <u>\$ 19,298,350</u> | <u>\$ 20,349,696</u> |
| <b>NET PENSION LIABILITY, ENDING (a)-(b)</b>                                      | <u>\$ 5,744,002</u>  | <u>\$ 5,349,387</u>  | <u>\$ 5,143,814</u>  | <u>\$ 3,251,148</u>  |
| <b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b> | <u>79.85%</u>        | <u>79.24%</u>        | <u>78.96%</u>        | <u>86.22%</u>        |
| <b>COVERED-EMPLOYEE PAYROLL</b>   | <u>\$ 4,108,474</u>  | <u>\$ 3,794,267</u>  | <u>\$ 3,726,783</u>  | <u>\$ 3,784,157</u>  |
| <b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>          | <u>139.81%</u>       | <u>140.99%</u>       | <u>138.02%</u>       | <u>85.91%</u>        |

**NOTES TO THE SCHEDULE**

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

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

|   | <u>2017</u>         | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION                                     | \$ 1,049,802        | \$ 903,774          | \$ 880,611          | \$ 865,432          |
| CONTRIBUTIONS IN RELATION TO THE<br>ACTUARIALLY DETERMINED CONTRIBUTION | <u>(1,049,802)</u>  | <u>(903,774)</u>    | <u>(880,611)</u>    | <u>(865,432)</u>    |
| CONTRIBUTION (EXCESS)<br>DEFICIENCY                                     | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         |
| COVERED-EMPLOYEE PAYROLL  | <u>\$ 4,108,474</u> | <u>\$ 3,794,267</u> | <u>\$ 3,726,783</u> | <u>\$ 3,784,157</u> |
| CONTRIBUTION AS A PERCENTAGE OF<br>COVERED-EMPLOYEE PAYROLL             | <u>25.55%</u>       | <u>23.82%</u>       | <u>23.63%</u>       | <u>22.87%</u>       |

**NOTES TO SCHEDULE**

Valuation date: January 1, 2017 January 1, 2015 January 1, 2013

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      | Entry age normal      |
| Amortization method                    | Level dollar, closed  | Level dollar, closed  | Level dollar, closed  |
| Remaining amortization period          | 10 years              | 10 years              | 11 years              |
| Asset valuation method                 | Market value          | Market value          | Market value          |
| Inflation                              | 3.00%                 | 3.00%                 | 3.00%                 |
| Salary increases                       | 4.00%                 | 4.00%                 | 3.50%                 |
| Investment rate of return              | 7.00%                 | 7.00%                 | 6.50%                 |
| Postretirement cost of living increase | 2.00%                 | 0.00%                 | 0.00%                 |
| Retirement age                         | Normal retirement age | Normal retirement age | Normal retirement age |
| Mortality                              | IRS 2017 Static Table | RP 2000 Table         | UP1984 Table          |

**NOTES TO THE SCHEDULE**

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

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

---

|  | <u>2017</u>   | <u>2016</u>  | <u>2015</u>   | <u>2014</u>  |
|--|---------------|--------------|---------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN,<br>NET OF INVESTMENT EXPENSE | <u>11.54%</u> | <u>5.86%</u> | <u>-4.80%</u> | <u>5.90%</u> |

**NOTES TO THE SCHEDULE**

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

**BOROUGH OF POTTSTOWN****SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED EMPLOYEES'  
PENSION PLAN LIABILITY AND RELATED RATIOS  
LAST TWO YEARS**

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| TOTAL PENSION LIABILITY  |                      |                      |
| Service cost   | \$ 481,105           | \$ 415,040           |
| Interest   | 1,335,503            | 1,224,267            |
| Changes for experience   | 288,649              | -                    |
| Changes for assumptions  | 823,062              | -                    |
| Benefit payments   | <u>(957,464)</u>     | <u>(1,254,043)</u>   |
| NET CHANGE IN TOTAL PENSION LIABILITY                                      | 1,970,855            | 385,264              |
| Total pension liability, beginning   | <u>19,432,118</u>    | <u>19,046,854</u>    |
| TOTAL PENSION LIABILITY, ENDING (a)  | <u>\$ 21,402,973</u> | <u>\$ 19,432,118</u> |
| PLAN FIDUCIARY NET POSITION  |                      |                      |
| Contributions  |                      |                      |
| Employer   | \$ 343,074           | \$ 295,227           |
| Member   | 298,909              | 315,396              |
| Net investment income  | 923,562              | 922,590              |
| Benefit payments, including refunds of member contributions                | <u>(957,464)</u>     | <u>(1,254,043)</u>   |
| Administrative expenses  | <u>(16,970)</u>      | <u>(3,848)</u>       |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION                                  | 591,111              | 275,322              |
| Plan fiduciary net position, beginning                                     | <u>16,162,895</u>    | <u>15,887,573</u>    |
| PLAN FIDUCIARY NET POSITION, ENDING (b)                                    | <u>\$ 16,754,006</u> | <u>\$ 16,162,895</u> |
| NET PENSION LIABILITY, ENDING (a)-(b)                                      | <u>\$ 4,648,967</u>  | <u>\$ 3,269,223</u>  |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>78.28%</u>        | <u>83.18%</u>        |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 4,914,197</u>  | <u>\$ 4,612,354</u>  |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL          | <u>94.60%</u>        | <u>70.88%</u>        |

**NOTES TO THE SCHEDULE**

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

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

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION                                  | \$ 343,074          | \$ 295,227          |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>(343,074)</u>    | <u>(295,227)</u>    |
| CONTRIBUTION (EXCESS) DEFICIENCY                                     | <u>\$ -</u>         | <u>\$ -</u>         |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 4,914,197</u> | <u>\$ 4,612,354</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL             | <u>6.98%</u>        | <u>6.40%</u>        |

**NOTES TO SCHEDULE**

Valuation date: January 1, 2017 January 1, 2015

Actuarially determined contribution rates are calculated by January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

|                               |                       |                       |
|-------------------------------|-----------------------|-----------------------|
| Actuarial cost method         | Entry age normal      | Entry age normal      |
| Amortization method           | Level dollar, closed  | Level dollar, closed  |
| Remaining amortization period | 9 years               | 9 years               |
| Asset valuation method        |                       |                       |
| Inflation                     | 3.00%                 | 3.00%                 |
| Salary increases              | 4.00%                 | 4.00%                 |
| Investment rate of return     | 6.50%                 | 6.50%                 |
| Retirement age                | Normal retirement age | Normal retirement age |
| Mortality                     | RP2000 Table          | RP2000 Table          |

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



**BOROUGH OF POTTSTOWN**

SCHEDULE OF NON-UNIFORMED EMPLOYEES' PENSION PLAN

INVESTMENT RETURNS

LAST TWO YEARS

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|  | <u>2017</u>  | <u>2016</u>  |
|--|--------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN,<br>NET OF INVESTMENT EXPENSE | <u>5.57%</u> | <u>5.92%</u> |

**NOTES TO THE SCHEDULE**

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

## BOROUGH OF POTTSTOWN

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

---

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| PROPORTION OF THE NET PENSION LIABILITY  | <u>32.26%</u>       | <u>32.26%</u>       |
| PROPORTIONATE SHARE OF THE NET PENSION LIABILITY   | \$ <u>1,499,546</u> | \$ <u>1,054,503</u> |
| COVERED-EMPLOYEE PAYROLL   | \$ <u>1,585,097</u> | \$ <u>1,487,945</u> |
| PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL | <u>94.60%</u>       | <u>70.88%</u>       |
| THE FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY                        | <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 FISCAL YEAR

|  |                      |
|--|----------------------|
| TOTAL OPEB LIABILITY   |                      |
| Service cost   | \$ 1,364,951         |
| Interest   | 1,037,957            |
| Benefit payments   | <u>(458,872)</u>     |
| NET CHANGE IN TOTAL OPEB LIABILITY   | 1,944,036            |
| Total OPEB liability, beginning  | <u>28,370,996</u>    |
| TOTAL OPEB LIABILITY, ENDING (a)   | <u>\$ 30,315,032</u> |
| PLAN FIDUCIARY NET POSITION  |                      |
| Contributions  |                      |
| Employer   | \$ 708,872           |
| Member   | 75,304               |
| Net investment income  | 123,929              |
| Benefit payments   | (458,872)            |
| Administrative expense   | <u>(13,370)</u>      |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION                                  | 435,863              |
| Plan fiduciary net position, beginning                                     | <u>1,095,337</u>     |
| PLAN FIDUCIARY NET POSITION, ENDING (b)                                    | <u>\$ 1,531,200</u>  |
| NET OPEB LIABILITY, ENDING (a)-(b)   | <u>\$ 28,783,832</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL<br>OPEB LIABILITY | <u>5.05%</u>         |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 8,952,740</u>  |
| NET OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE<br>PAYROLL          | <u>321.51%</u>       |

### NOTES TO SCHEDULE

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

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

---

|  |                     |
|--|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION                                  | \$ 784,176          |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>784,176</u>      |
| CONTRIBUTION DEFICIENCY  | <u>\$ -</u>         |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 8,952,740</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL             | <u>8.76%</u>        |

**NOTES TO SCHEDULE**

Valuation date: July 1, 2016

Methods and assumptions used to determine contribution rates:

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Entry age normal                               |
| Amortization method           | Level dollar, open                             |
| Remaining amortization period | 30 years                                       |
| Asset valuation method        | Market value                                   |
| Inflation                     | 5.25%  |
| Salary increases              | 4.0%   |
| Investment rate of return     | 3.52%  |
| Retirement age                | Normal retirement age                          |
| Mortality                     | IRS 2017 Static Combined Table for Small Plans |

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

**BOROUGH OF POTTSTOWN**

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT  
PLAN INVESTMENT RETURNS  
LAST FISCAL YEAR

---

ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF  
INVESTMENT EXPENSE

14.72%

**NOTES TO SCHEDULE**

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

**BOROUGH OF POTTSTOWN**  
**POSTEMPLOYMENT BENEFITS OTHER THAN**  
**PENSION FUNDING PROGRESS**  
**YEAR ENDED DECEMBER 31, 2017**

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**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date<br>January 1, | (a)<br>Actuarial<br>Value of<br>Assets | (b)<br>Actuarial<br>Accrued<br>Liability<br>(AAL)<br>Entry Age | (c)<br>Unfunded<br>(Assets in<br>Excess<br>of) AAL<br>(b)-(a) | (d)<br>Funded<br>Ratio<br>(a)/(b) | (e)<br>Covered<br>Payroll | (f)<br>Unfunded<br>(Assets in<br>Excess of)<br>AAL as a<br>Percentage<br>of Payroll<br>(c)/(e) |
|--|--|--|---|-----------------------------------|---------------------------|--|
| 2012   | \$ -                                   | \$ 24,128,522  | \$ 24,128,522   | 0.0%                              | \$ 5,077,065              | 475.25%  |
| 2014   | -                                      | 19,432,286   | 19,432,286  | 0.0%                              | 5,300,942                 | 366.58%  |
| 2016   | 931,003                                | 21,444,227   | 20,513,224  | 4.3%                              | 8,952,740                 | 229.13%  |

## **SUPPLEMENTARY INFORMATION SECTION**

**BOROUGH OF POTTSTOWN**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

|  | Special Revenue   |                            |                    |
|--|-------------------|----------------------------|--------------------|
|  | Airport<br>Fund   | Street<br>Lighting<br>Fund | Recreation<br>Fund |
| <b>ASSETS</b>  |                   |                            |                    |
| Cash and cash equivalents  | \$ 173,273        | \$ 167,452                 | \$ 132,754         |
| Receivables  |                   |                            |                    |
| Accounts   | -                 | 70                         | 2,758              |
| Taxes  | -                 | 10,657                     | 28,651             |
| Prepaid expenditures   | <u>16,107</u>     | <u>-</u>                   | <u>30,032</u>      |
| TOTAL ASSETS   | <u>\$ 189,380</u> | <u>\$ 178,179</u>          | <u>\$ 194,195</u>  |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>      |                   |                            |                    |
| <b>LIABILITIES</b>   |                   |                            |                    |
| Accounts payable   | \$ 4,008          | \$ 20,352                  | \$ 5,769           |
| Accrued liabilities  | -                 | -                          | 8,262              |
| Unearned revenue   | <u>3,565</u>      | <u>-</u>                   | <u>-</u>           |
| TOTAL LIABILITIES  | <u>7,573</u>      | <u>20,352</u>              | <u>14,031</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                     |                   |                            |                    |
| Unavailable revenue, property taxes                                      | <u>-</u>          | <u>10,574</u>              | <u>28,427</u>      |
| <b>FUND BALANCES</b>   |                   |                            |                    |
| Nonspendable, prepaid expenditures                                       | 16,107            | -                          | 30,032             |
| Assigned to  |                   |                            |                    |
| Airport improvement  | 165,700           | -                          | -                  |
| Grants   | -                 | -                          | 121,705            |
| Parking lot program purposes   | -                 | -                          | -                  |
| Street lighting  | -                 | 147,253                    | -                  |
| Fire services  | -                 | -                          | -                  |
| Library  | -                 | -                          | -                  |
| TOTAL FUND BALANCES  | <u>181,807</u>    | <u>147,253</u>             | <u>151,737</u>     |
| TOTAL LIABILITIES, DEFERRED<br>INFLOWS OF RESOURCES<br>AND FUND BALANCES | <u>\$ 189,380</u> | <u>\$ 178,179</u>          | <u>\$ 194,195</u>  |



| Funds                     |                     |                         |                                       |
|---------------------------|---------------------|-------------------------|---------------------------------------|
| <u>Fire Services Fund</u> | <u>Library Fund</u> | <u>Parking Lot Fund</u> | <u>Total Other Governmental Funds</u> |
| \$ 641,864                | \$ 26,001           | \$ 96,046               | \$ 1,237,390                          |
| 8,885                     | 48                  | 1,194                   | 12,955                                |
| 49,428                    | 7,273               | -                       | 96,009                                |
| <u>17,983</u>             | <u>14,965</u>       | <u>-</u>                | <u>79,087</u>                         |
| <u>\$ 718,160</u>         | <u>\$ 48,287</u>    | <u>\$ 97,240</u>        | <u>\$ 1,425,441</u>                   |
| <br>                      |                     |                         |                                       |
| \$ 2,868                  | \$ -                | \$ 419                  | \$ 33,416                             |
| 2,870                     | -                   | 798                     | 11,930                                |
| -                         | -                   | -                       | 3,565                                 |
| <u>5,738</u>              | <u>-</u>            | <u>1,217</u>            | <u>48,911</u>                         |
| <br>                      |                     |                         |                                       |
| <u>49,041</u>             | <u>7,216</u>        | <u>-</u>                | <u>95,258</u>                         |
| <br>                      |                     |                         |                                       |
| 17,983                    | 14,965              | -                       | 79,087                                |
| -                         | -                   | -                       | 165,700                               |
| -                         | -                   | -                       | 121,705                               |
| -                         | -                   | 96,023                  | 96,023                                |
| -                         | -                   | -                       | 147,253                               |
| 645,398                   | -                   | -                       | 645,398                               |
| -                         | 26,106              | -                       | 26,106                                |
| <u>663,381</u>            | <u>41,071</u>       | <u>96,023</u>           | <u>1,281,272</u>                      |
| <br>                      |                     |                         |                                       |
| <u>\$ 718,160</u>         | <u>\$ 48,287</u>    | <u>\$ 97,240</u>        | <u>\$ 1,425,441</u>                   |

**BOROUGH OF POTTSTOWN**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**OTHER GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|  | Special Revenue   |                            |                    |
|--|-------------------|----------------------------|--------------------|
|  | Airport<br>Fund   | Street<br>Lighting<br>Fund | Recreation<br>Fund |
| <b>REVENUES</b>                                      |                   |                            |                    |
| Taxes  | \$ -              | \$ 268,117                 | \$ 720,984         |
| Intergovernmental                                    | -                 | -                          | 122,085            |
| Charges for services                                 | 153,389           | -                          | 195,720            |
| Interest and rents                                   | 741               | 863                        | 27,648             |
| Miscellaneous  | 39,799            | 35                         | 4,217              |
| TOTAL REVENUES                                       | <u>193,929</u>    | <u>269,015</u>             | <u>1,070,654</u>   |
| <b>EXPENDITURES</b>                                  |                   |                            |                    |
| Public safety, fire department                       | -                 | -                          | -                  |
| Public works   |                   |                            |                    |
| Highways   | -                 | 222,512                    | -                  |
| Other public works                                   | 144,852           | -                          | -                  |
| Culture and recreation                               |                   |                            |                    |
| Recreation   | -                 | -                          | 1,029,492          |
| Library  | -                 | -                          | -                  |
| Debt service   |                   |                            |                    |
| Principal  | -                 | -                          | -                  |
| Interest   | -                 | -                          | -                  |
| TOTAL EXPENDITURES                                   | <u>144,852</u>    | <u>222,512</u>             | <u>1,029,492</u>   |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | 49,077            | 46,503                     | 41,162             |
| <b>OTHER FINANCING SOURCES</b>                       |                   |                            |                    |
| Proceeds from sale of capital assets                 | -                 | -                          | 4,013              |
| Transfers in   | -                 | -                          | -                  |
| TOTAL OTHER FINANCING SOURCES                        | <u>-</u>          | <u>-</u>                   | <u>4,013</u>       |
| NET CHANGE IN FUND BALANCES                          | 49,077            | 46,503                     | 45,175             |
| FUND BALANCES AT BEGINNING OF YEAR                   | <u>132,730</u>    | <u>100,750</u>             | <u>106,562</u>     |
| FUND BALANCES AT END OF YEAR                         | <u>\$ 181,807</u> | <u>\$ 147,253</u>          | <u>\$ 151,737</u>  |

| Funds                     |                     |                         |                                       |
|---------------------------|---------------------|-------------------------|---------------------------------------|
| <u>Fire Services Fund</u> | <u>Library Fund</u> | <u>Parking Lot Fund</u> | <u>Total Other Governmental Funds</u> |
| \$ 1,243,349              | \$ 182,923          | \$ -                    | \$ 2,415,373                          |
| 108,584                   | -                   | -                       | 230,669                               |
| 99,032                    | -                   | 35,204                  | 483,345                               |
| 4,076                     | 237                 | 456                     | 34,021                                |
| 2,934                     | 3,280               | -                       | 50,265                                |
| <u>1,457,975</u>          | <u>186,440</u>      | <u>35,660</u>           | <u>3,213,673</u>                      |
| 1,485,978                 | -                   | -                       | 1,485,978                             |
| -                         | -                   | 80,693                  | 303,205                               |
| -                         | -                   | -                       | 144,852                               |
| -                         | -                   | -                       | 1,029,492                             |
| -                         | 179,964             | -                       | 179,964                               |
| 81,616                    | -                   | -                       | 81,616                                |
| 23,304                    | -                   | -                       | 23,304                                |
| <u>1,590,898</u>          | <u>179,964</u>      | <u>80,693</u>           | <u>3,248,411</u>                      |
| (132,923)                 | 6,476               | (45,033)                | (34,738)                              |
| 1,000                     | -                   | -                       | 5,013                                 |
| -                         | -                   | 32,500                  | 32,500                                |
| <u>1,000</u>              | <u>-</u>            | <u>32,500</u>           | <u>37,513</u>                         |
| (131,923)                 | 6,476               | (12,533)                | 2,775                                 |
| <u>795,304</u>            | <u>34,595</u>       | <u>108,556</u>          | <u>1,278,497</u>                      |
| <u>\$ 663,381</u>         | <u>\$ 41,071</u>    | <u>\$ 96,023</u>        | <u>\$ 1,281,272</u>                   |

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF WASTEWATER SYSTEM**  
**FINAL RECONCILIATION**  
**YEAR ENDED DECEMBER 31, 2017**

|                                     | <u>Basis of<br/>Allocation</u> | <u>Annual Cost<br/>1/1/2017 -<br/>12/31/2017</u> | <u>Less:<br/>Lower<br/>Pottsgrove</u> |
|-------------------------------------|--------------------------------|--|---------------------------------------|
| 1 Annual System Costs               |                                |  |                                       |
| 2 Wastewater Treatment              | A/B                            | \$ 3,762,211                                     | \$ 1,117,789 (1), (2), (3)            |
| 3 Administration                    |                                |  |                                       |
| Legislative Body                    | A/B                            | 9,645  | 2,921                                 |
| Executive                           | A/B                            | 70,453   | 17,538                                |
| Auditing Services/Accounting        | A/B                            | 196,626  | 22,720 (4)                            |
| Legal                               | A/B                            | 12,902   | 1,029 (7)                             |
| Human Resources                     | A/B                            | 58,624   | 17,754                                |
| IT-Web Network Services             | A/B                            | 93,252   | 21,729 (5)                            |
| Engineering                         | A/B                            | 79,948   | 14,189 (8)                            |
| General Gov. Bldg. and Plant        | A/B                            | 61,875   | 4,305                                 |
| Public Works                        | A/B                            | 50,881   | 739 (9)                               |
| Miscellaneous                       | A/B                            | 599  | 181                                   |
| Pension Expense                     | A/B                            | 64,807   | 19,626                                |
| Insurance                           | A/B                            | 63,017   | 19,084                                |
| Employee Benefits                   | A/B                            | 561,897  | 150,496                               |
|                                     |                                | <u>1,324,526</u>                                 | <u>292,311</u>                        |
| 4 Sewer Lines                       |                                | -  | -                                     |
| 5 Porter Road Pump Station          | C                              | 22,040   | 1,605                                 |
| 6 Electric-Pump Stations            | B                              | 24,200   | -                                     |
| 7 Maint. and Repairs Sewer Lines    | B                              | 179,093  | - (10)                                |
| 8 Maint. Of Meters                  | B                              | 3,817  | -                                     |
| 9 Elec. Flow Meter                  | B                              | 1,904  | 576                                   |
| 10 Total System Costs               |                                | <u>5,317,791</u>                                 | <u>1,412,281</u>                      |
| 11 Deductions-Revenue               |                                |  |                                       |
| 12 Cell Tower Rent                  | A/B                            | 13,130   | 3,976                                 |
| 13 PEMA                             | A/B                            | -  | -                                     |
| 14 MIPP                             | A/B                            | 8,864  | 2,685                                 |
| 15 Violations, Inspections, Permits | A/B                            | 6,760  | 2,047                                 |
| 16 Sewer Bulk Collection            | A/B                            | 2,710,701  | 820,908                               |
| 17 Waste Mgmt.-Leachate             | A/B                            | 115,943  | 35,112                                |
| 18 Wage Allocation-06               | A/B                            | 78,645   | 23,817                                |
| 19 Energy Capacity Payments         | A/B                            | 1,052  | 319                                   |
| 20 Scrap Sales                      | A/B                            | 861  | 261                                   |
| 21 Total Deductions-Revenue         |                                | <u>2,935,956</u>                                 | <u>889,125</u>                        |
| 22 Net System Costs                 |                                | <u>\$ 2,381,835</u>                              | <u>523,156</u>                        |
| Final Allocation %                  |                                | 100%   | 21.96%                                |
| 2017 Estimated Payments             |                                |  | <u>473,233</u>                        |
| Due to (from) Borough               |                                |  | <u>\$ 49,923</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 = \$40,977 & WPT = \$40,805
- (2) Excludes cost associated with the Memorial Park pumping station - LPT & UPT = \$17,435
- (3) 100% of cost associated with the Circle of Progress pumping station allocated to PT = \$5,237
- (4) Excludes \$100,101 related to billing and collections.
- (5) Excludes \$21,502 of Dallas Data billing charges.
- (6) Excludes \$9,410 of Portnoff Law Associates collection fees.
- (7) Excludes \$9,502 of legal expenses which were specific to the PBA
- (8) Excludes \$33,094 of engineering charges which were specific to Borough
- (9) Excludes \$24,809 related to labor specific to Pottstown sewer lines.
- (10) Excludes \$179,093 for televising Borough sewer lines and other repairs.

| <u>Net Cost</u>         | <u>Upper<br/>Pottsgrove</u> | <u>West<br/>Pottsgrove</u> | <u>Pottstown</u>    |
|-------------------------|-----------------------------|----------------------------|---------------------|
| \$ <u>2,644,422</u> (1) | \$ <u>211,819</u> (2)       | \$ <u>421,141</u> (1)      | \$ <u>2,011,462</u> |
| 6,724                   | 547                         | 1,097                      | 5,080               |
| 52,915                  | 3,284                       | 6,588                      | 43,043              |
| 173,906                 | 13,379 (6)                  | 26,841 (6)                 | 133,686             |
| 11,873                  | 193 (7)                     | 387 (7)                    | 11,293              |
| 40,870                  | 3,324                       | 6,669                      | 30,877              |
| 71,523                  | 5,817                       | 11,671                     | 54,035              |
| 65,759                  | 3,811                       | 7,645                      | 54,303              |
| 57,570                  | 4,682                       | 9,394                      | 43,494              |
| 50,142                  | 138 (9)                     | 277 (9)                    | 49,727              |
| 418                     | 34                          | 68                         | 315                 |
| 45,181                  | 3,675                       | 7,372                      | 34,134              |
| 43,933                  | 3,573                       | 7,169                      | 33,191              |
| <u>411,401</u>          | <u>28,178</u> (8)           | <u>56,532</u> (8)          | <u>326,690</u>      |
| <u>1,032,215</u>        | <u>70,635</u>               | <u>141,710</u>             | <u>819,868</u>      |
| -                       | -                           | -                          | -                   |
| 20,435                  | 2,778                       | 3,334                      | 14,322              |
| 24,200                  | -                           | 11,023                     | 13,177              |
| 179,093                 | - (10)                      | - (10)                     | 179,093             |
| 3,817                   | 310                         | 623                        | 2,884               |
| 1,328                   | 108                         | 217                        | 1,003               |
| <u>3,905,510</u> (1)    | <u>285,650</u>              | <u>578,048</u>             | <u>3,041,809</u>    |
| 9,154                   | 745                         | 1,494                      | 6,916               |
| -                       | -                           | -                          | -                   |
| 6,179                   | 503                         | 1,008                      | 4,669               |
| 4,713                   | 383                         | 769                        | 3,560               |
| 1,889,793               | 153,704                     | 308,363                    | 1,427,724           |
| 80,831                  | 6,574                       | 13,189                     | 61,067              |
| 54,828                  | 4,459                       | 8,946                      | 41,422              |
| 733                     | 60                          | 120                        | 554                 |
| 600                     | 49                          | 98                         | 453                 |
| <u>2,046,831</u>        | <u>166,477</u>              | <u>333,987</u>             | <u>1,546,365</u>    |
| \$ <u>1,858,679</u> (1) | <u>119,173</u>              | <u>244,061</u>             | \$ <u>1,495,444</u> |
|                         | 5.00%                       | 10.25%                     | 62.79%              |
|                         | <u>128,693</u>              | <u>244,443</u>             |                     |
|                         | \$ <u>(9,520)</u>           | \$ <u>(382)</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, 2017, 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 July 6, 2018.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Borough of Pottstown's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

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

*Maille LLP*

Oaks, Pennsylvania  
July 6, 2018

***Independent Auditors' Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of  
Federal Awards Required by 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, 2017. 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.

***Opinion on Each Major Federal Program***

In our opinion, the Borough of Pottstown complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.



To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The Borough of Pottstown's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Borough of Pottstown's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Management of the Borough of Pottstown is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough of Pottstown's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough of Pottstown's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

The Borough of Pottstown's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Borough of Pottstown's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited 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, 2017, and the related notes to the financial statements, which collectively comprise the Borough of Pottstown's basic financial statements. We issued our report thereon dated June 6, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Maille LLP*

Oaks, Pennsylvania  
July 6, 2018

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

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2017**

- 111 -

| 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>                             |                     |                                     |                  |                                 |
| <b>Federal Transit Formula Grants</b>                                | 20.507*             | n/a                                 | \$ 667,922       | \$ -                            |
| <b>Passed through the Commonwealth of Pennsylvania</b>               |                     |                                     |                  |                                 |
| Airport Improvement Program  | 20.106*             | ABG-2015<br>Boro of Pottstown-00029 | 76,830           | -                               |
| Airport Improvement Program  | 20.106*             | ABG-2016<br>Boro of Pottstown-00016 | 137,064          | -                               |
| Total CFDA 20.106  |                     |                                     | <u>213,894</u>   | <u>-</u>                        |
| Highway Planning and Construction                                    | 20.205              | n/a                                 | 12,711           | -                               |
| Highway Planning and Construction                                    | 20.205              | 641061 (Phase 3)                    | 208,563          | -                               |
| Highway Planning and Construction                                    | 20.205              | 641059                              | 90,421           | -                               |
| Total Highway Planning & Construction Cluster<br>(Total CFDA 20.205) |                     |                                     | <u>311,695</u>   | <u>-</u>                        |
| Alcohol Impaired Driving Countermeasures Grants                      | 20.601              | IDP-G-2017-POTTSTOWN                | 45,937           | -                               |
| Total Highway Safety Cluster - CFDA 20.601                           |                     |                                     | <u>45,937</u>    | <u>-</u>                        |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION<br>FORWARD                   |                     |                                     | <u>1,239,448</u> | <u>-</u>                        |
| <b>U.S. DEPARTMENT OF JUSTICE</b>                                    |                     |                                     |                  |                                 |
| <b>Bulletproof Vest Partnership Program</b>                          | 16.607              | n/a                                 | 4,824            | -                               |
| <b>Passed through the Municipality of Norristown</b>                 |                     |                                     |                  |                                 |
| Edward Byrne Memorial Justice Assistance Grant                       | 16.738              | 2014-DJ-BX-1003                     | 2,622            | -                               |
| Edward Byrne Memorial Justice Assistance Grant                       | 16.738              | 2015-DJ-BX-0884                     | 14,009           | -                               |
| Total CFDA 16.738  |                     |                                     | <u>16,631</u>    | <u>-</u>                        |
| TOTAL U.S. DEPARTMENT OF JUSTICE FORWARD                             |                     |                                     | <u>\$ 21,455</u> | <u>\$ -</u>                     |

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2017**

| Federal Grantor/Pass-Through Grantor/Program Title      | Federal<br>CFDA<br>Number | Pass-through Award<br>Number | Expenditures   | Passed<br>Through to<br>Subrecipients |
|---|---------------------------|------------------------------|----------------|---------------------------------------|
| <b>U.S. DEPARTMENT OF TRANSPORTATION</b>                |                           |                              |                |                                       |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION<br>FORWARDED    |                           |                              |                |                                       |
|   |                           |                              | \$ 1,239,448   | \$ -                                  |
| <b>U.S. DEPARTMENT OF JUSTICE</b>                       |                           |                              |                |                                       |
| TOTAL U.S. DEPARTMENT OF JUSTICE FORWARDED              |                           |                              |                |                                       |
|   |                           |                              | 21,455         | -                                     |
| <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-16-03-106                  | 220,979        | -                                     |
| Total CDBG Entitlements Grants Cluster - CFDA 14.218    |                           |                              | <u>220,979</u> | <u>-</u>                              |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                   |                           |                              |                |                                       |
| <b>Passed through the Commonwealth of Pennsylvania</b>  |                           |                              |                |                                       |
| Summer Food Program for Children                        | 10.559                    | 6-08-46-560                  | 122,085        | -                                     |
| Total Child Nutrition Cluster - CFDA 10.559             |                           |                              | <u>122,085</u> | <u>-</u>                              |
| TOTAL FEDERAL AWARDS                                    |                           |                              |                |                                       |
|   |                           |                              | \$ 1,603,967   | \$ -                                  |

\*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, 2017**

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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, 2017. 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 2017 threshold for determining Type A and Type B Programs is \$750,000.

The programs tested as major programs include:

| <u>CFDA</u> | <u>Program</u>              |
|-------------|-----------------------------|
| 20.507      | Federal Transit Grants      |
| 20.106      | Airport Improvement Program |

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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**A. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified? **No**

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

Noncompliance material to financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? **No**

Significant deficiencies identified not considered to be material weaknesses? **Yes**

Noncompliance material to financial statements noted? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516(a) **Yes**

Identification of major programs:

| <u>CFDA</u> | <u>Program</u>              |
|-------------|-----------------------------|
| 20.507      | Federal Transit Grants      |
| 20.106      | Airport Improvement Program |

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

Auditee qualified as low-risk auditee? **No**

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

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

**2017-001 Federal Transit Grants – Special Tests and Provisions**  
**Federal CFDA #20.507**

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

**Condition:** The Borough did not report charter services to the federal transit administration during the year ended December 31, 2017.

**Criteria:** Federal regulations dictate that the Borough is responsible for reporting charter services that were provided via the FTA charter registration website. The reports are due 30 days after the end of each calendar quarter.

**Effect:** The Borough is not in compliance with its duties regarding the charter service reporting under the special tests and provisions requirement of the grant.

**Cause:** The Borough failed to report the charter services it provided during the year ended December 31, 2017.

**Recommendation:** The Borough should implement procedures to ensure that adequate activities are performed to ensure compliance with the special tests and provisions requirements for grants.

**Management's Response:** The duties for this reporting will be assigned to two employees. In the event that one leaves or is out of the office, the second one will be aware of the requirement for filing the charter revenues in the future. The 2017 charter revenues reporting will be completed by July 31, 2018.



**BOROUGH OF POTTSTOWN**  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2017

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None.



# Borough of Pottstown

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

## CORRECTIVE ACTION PLAN

July 2, 2018

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

RE: Single Audit Period End 12-31-17 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 12-31-17 by the auditing firm of Maillie, LLP, PO Box 680, Oaks PA 19456.

**Finding 2017-001 Special Tests and Provisions – Federal Transit Formula Grants CFDA #20-507**

- A. The duties for this reporting will be assigned to two employees, in the event that one leaves or is out of the office, the second one will be aware of the requirement for filing the charter revenues in the future.
- B. Responsible Person: Kourtney High, Grants Administrator
- C. Effective Date: All of the 2017 reporting will be completed as of 07-31-18.

If you have any further questions, please feel free to contact me at the Borough Hall Building Monday through Friday, 7:30 a.m. to 4:00 p.m., at 610-970-6534.

Sincerely,

BOROUGH OF POTTSTOWN

Janice E. Lee  
Finance Director