

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

**ANNUAL FINANCIAL REPORT**

*Year Ended December 31, 2017*



*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

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

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YEAR ENDED DECEMBER 31, 2017

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## **FINANCIAL SECTION**

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

To the Council Members  
Pottstown Borough Authority  
Pottstown, Pennsylvania

We have audited the accompanying financial statements of the business type activities and each major fund of the Pottstown Borough Authority (a component unit of the Borough of Pottstown) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Pottstown Borough Authority's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Council Members  
Pottstown Borough Authority  
Pottstown, Pennsylvania

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of the Pottstown Borough Authority as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9 and the schedule of the authority's proportionate share of the net pension liability on page 35, and the schedule of the authority's contributions on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Maille LLP*

Oaks, Pennsylvania  
June 11, 2018

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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The Pottstown Borough Authority, hereafter referred to as the "Authority," hereby presents its financial statements developed in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, entitled *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments* (hereafter "GASB 34"), and its related standards. GASB 34 enhances information provided to the users of these financial statements. This section of the financial reporting package presents a discussion and analysis of the Authority's financial performance during the calendar year that ended on December 31, 2017. Please read it in conjunction with the Authority's financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

**FINANCIAL ANALYSIS**

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

**Condensed Statements of Net Position**

	December 31,		Variance	
	2017	2016	Dollars	%
<b>ASSETS</b>				
Current assets	\$ 5,000,819	\$ 8,399,854	\$ (3,399,035)	-40.5%
Restricted assets	14,130,994	16,288,882	(2,157,888)	-13.2%
Capital assets, net	55,769,412	52,890,829	2,878,583	5.4%
Other assets	6,022	7,128	(1,106)	-15.5%
TOTAL ASSETS	<u>74,907,247</u>	<u>77,586,693</u>	<u>(2,679,446)</u>	-3.5%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding, net of accumulated amortization	813,323	997,695	(184,372)	-18.5%
Deferred outflows of resources, pension	674,843	516,171	158,672	30.7%
TOTAL DEFERRED OUTFLOWS	<u>1,488,166</u>	<u>1,513,866</u>	<u>(25,700)</u>	-1.7%
<b>LIABILITIES</b>				
Current liabilities	7,596,371	6,686,691	909,680	13.6%
Long-term liabilities	25,432,233	30,772,605	(5,340,372)	-17.4%
TOTAL LIABILITIES	<u>33,028,604</u>	<u>37,459,296</u>	<u>(4,430,692)</u>	-11.8%
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources, pension	88,863	177,727	(88,864)	-50.0%
<b>NET POSITION</b>				
Net investment in capital assets	40,850,620	34,688,638	6,161,982	17.8%
Restricted for debt service	14,130,994	1,359,871	12,771,123	939.1%
Unrestricted	(11,703,668)	5,415,027	(17,118,695)	-316.1%
TOTAL NET POSITION	<u>\$ 43,277,946</u>	<u>\$ 41,463,536</u>	<u>\$ 1,814,410</u>	4.4%

**Current Assets** for the combined Water and Sewer Funds decreased by \$3.4 million or 40.5% in 2017. Sewer and water cash and cash equivalents each decreased by \$1.0 million to fund capital improvements. In addition, the water fund liquidated \$1.5 million of unrestricted investments and the sewer capital fund received \$1.3 million in contributions from the sewer operating fund to fund the capital improvement program.

**Restricted Assets** decreased by \$2.2 million or 13.2% due the liquidation of investments to pay the debt service for the 1991 series sewer bonds. In addition, \$.7 million was transferred from the debt service reserve account to the sewer construction account and disbursed for capital projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Capital Assets** increased by \$2.9 million or 5.4%. A \$5.5 million sewer and water line replacement was completed during 2017. Construction in progress (CIP), net of projects completed and capitalized, increased \$.8 million which consisted of a \$.9 million increase in sewer and a \$.1 million decrease in water CIP. The increase in sewer results from a project to replace the existing sludge dryer and improve security at the wastewater treatment plant. The increase is offset by depreciation and amortization. During 2017, the remaining net book value for sludge dryer that is being retired was written off.

**Deferred Outflows of Resources** is slightly lower than 2016. Amortization of losses on bond refunding is offset by recognition of the Authority's share of the non-uniformed pension liability.

**Liabilities** decreased by \$4.4 million or 11.8%. Current liabilities increased by \$.9 million as a result of the accrual of \$.7 million of capital invoices related to the painting of a water storage tank, water and sewer main replacements and other capital projects. In addition, the current portion of long term debt increased by \$.2 million. Long-term liabilities decreased \$5.3 million. Long term debt decreased by \$4.2 million due to scheduled debt principal payments and amortization of bond premiums.

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

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

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

	December 31,		Variance	
	2017	2016	Dollars	%
OPERATING REVENUES	\$ 8,889,591	\$ 8,121,955	\$ 767,636	9.5%
OPERATING EXPENSES				
General government	570,153	701,752	(131,599)	-18.8%
Public works, water sanitation	2,398,519	2,589,565	(191,046)	-7.4%
Benefits and insurance	1,072,632	207,965	864,667	415.8%
Depreciation and amortization	3,233,401	3,147,113	86,288	2.7%
Administration and general expenses	101,727	832,401	(730,674)	-87.8%
Management fee	386,744	412,184	(25,440)	-6.2%
TOTAL OPERATING EXPENSES	<u>7,763,176</u>	<u>7,890,980</u>	<u>(127,804)</u>	-1.6%
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	679,834	231,439	448,395	193.7%
Realized gains on investments	1,696,600	1,658,919	37,681	2.3%
Unrealized losses on investments	(1,526,371)	(1,429,929)	(96,442)	-6.7%
Capital grants and contributions	269,243	568,981	(299,738)	-52.7%
Bond issue costs	-	(175,137)	175,137	100.0%
Increase in accretion on bonds	(632,883)	(739,486)	106,603	14.4%
Interest expense	(875,255)	(924,057)	48,802	5.3%
Contribution from Borough sewer operating fund	1,300,000	1,658,317	(358,317)	-21.6%
Contribution to Borough sewer line fund	-	(19,203)	19,203	100.0%
Contribution to Borough public works facility	(200,000)	(200,000)	-	0.0%
Contribution (to) from Borough general fund	(23,173)	95,227	(118,400)	-124.3%
Contribution from Borough capital fund	-	17,667	(17,667)	-100.0%
Gain on disposal of capital assets	-	94,096	(94,096)	-100.0%
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>687,995</u>	<u>836,834</u>	<u>(148,839)</u>	17.8%
CHANGE IN NET POSITION	<u>\$ 1,814,410</u>	<u>\$ 1,067,809</u>	<u>\$ 746,601</u>	69.9%

**Operating Revenues** increased by \$.8 million or 9.5%. Sewer Rental revenues received from the sewer operating fund were \$.5 million higher to fund increased debt service on the 2016 series sewer revenue bonds. Charges for water services increased by \$.2 million in 2017 resulting from a water rate increase that was implemented in July 2017. In addition, a contribution was received from a developer to upgrade a water pump station. Royalties and other rentals increased slightly and consist of rentals received for cell phone towers located on the Authority's water storage tanks.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Total Operating Expenses** decreased by \$.1 million in 2017 or 1.6%. General government expense decreased by \$.1 million because 2016 included a one-time allocation of pension expense from the Borough of Pottstown (Borough) general fund. Public works, water sanitation expense decreased by \$.2 million or 7.4%. The decrease results from vacant positions in water distribution and at the water plant departments and lower chemical and electric costs at the water treatment plant. The level of repairs to water mains and related road repairs was lower in 2017. Benefits are \$.9 million higher in 2017 due to increases in health care and pension expense. Administration and general expense is \$.7 million lower in 2017. Included in 2016 was the write-off of major capital repairs to the sludge dryer at the wastewater treatment plant due to the decision to retire the unit. Also the write-off of a receivable from Upper Pottsgrove Township (Township) which will not be fully recovered. An insignificant amount was received from the Township in 2017 and the reserve for doubtful accounts was adjusted accordingly in 2017.

**Nonoperating Revenues (Expenses)** decreased by \$.1 million or 17.8% in 2017. Investment earnings increased by \$.4 million as a result of a \$.5 premium received from the termination of a guaranteed investment contract (GIC) held by the sewer debt reserve trust account. This premium was offset by the \$.1 million loss of Interest earnings on the GIC. Capital grants and contributions decreased by \$.3 million due to lower capital project contributions from the three townships that participate in the cost sharing of the sewer plant. The increase in accretion for the 1991 series sewer revenue bonds was \$.1 million less than in 2016 resulting in a reduction in nonoperating expenses. The contribution from the sewer operating fund to fund capital projects decreased by \$.4 million in 2017. Although capital spending increased over 2016 the Authority was able to fund the spending by moving excess funds in the debt service reserve account to the construction account. Contribution (to) from the Borough changed from a due from the Borough to a due to the Borough in 2017. The due from the Borough was to fund the water fund's proportional share of the 2016 pension expense. The 2017 due to the Borough general fund was to reimburse the Borough for the Authority's proportional share of capital improvements to the Borough Hall. During 2017, the third of ten \$.2 million annual contributions was made to the Borough for the public works facility.

**Capital Assets and Long-Term Debt**

During 2017, total capital spending for sewer projects was \$3.4 million and \$2.8 million for water capital projects.

The Authority intends to fund capital spending with internally generated cash and does not intend additional borrowings in the near future. They approved a water rate increase in 2017 to be effective July 1, 2017. The average residential customer's quarterly bill will increase by 14%. The last increase was in 2011. With this rate increase, cash in restricted construction accounts and operating reserves will be adequate to fund existing capital programs at the Water Treatment Plant the Wastewater Treatment Plant and planned infrastructure projects.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Water**

Ongoing water main replacements (current program complete in 2018)	\$2,400,000
Paint water tanks	\$1,200,000
PLC migration (complete in 2018)	\$200,000
Kepler Road Pump Station upgrades	\$200,000
Commission New Hanover tank	\$100,000
Water plant security and communications (complete in 2018)	\$600,000

**Sewer**

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

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

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

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

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF NET POSITION  
DECEMBER 31, 2017

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 378,242	\$ 988,169	\$ 1,366,411
Investments	9,129	2,478,531	2,487,660
Prepaid expenses	-	76,525	76,525
Trade receivables, net	-	1,011,698	1,011,698
Due from primary government	-	25,879	25,879
Other receivables, net	-	32,646	32,646
TOTAL CURRENT ASSETS	<u>387,371</u>	<u>4,613,448</u>	<u>5,000,819</u>
<b>CASH AND INVESTMENTS, restricted</b>			
Cash and cash equivalents	3,514,045	1,992,038	5,506,083
Investments	8,624,911	-	8,624,911
TOTAL CASH AND INVESTMENTS, restricted	<u>12,138,956</u>	<u>1,992,038</u>	<u>14,130,994</u>
<b>CAPITAL ASSETS</b>			
Land	36,650	330,179	366,829
Construction in progress	3,527,468	3,634,809	7,162,277
Buildings and building improvements	34,334,163	-	34,334,163
Machinery and equipment	1,480,096	1,213,621	2,693,717
Infrastructure	8,729,972	37,292,285	46,022,257
Accumulated depreciation	(20,934,866)	(13,874,965)	(34,809,831)
TOTAL CAPITAL ASSETS	<u>27,173,483</u>	<u>28,595,929</u>	<u>55,769,412</u>
<b>OTHER ASSETS</b>			
Unamortized bond discounts, net	-	6,022	6,022
TOTAL ASSETS	<u>39,699,810</u>	<u>35,207,437</u>	<u>74,907,247</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on refunding, net of accumulated amortization	467,994	345,329	813,323
Deferred outflows of resources, pension activity	-	674,843	674,843
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>467,994</u>	<u>1,020,172</u>	<u>1,488,166</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 40,167,804</u>	<u>\$ 36,227,609</u>	<u>\$ 76,395,413</u>

*See accompanying notes to the basic financial statements.*

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 557,162	\$ 965,929	\$ 1,523,091
Accrued interest	80,066	11,662	91,728
Current portion of bonds payable	<u>4,445,000</u>	<u>1,536,552</u>	<u>5,981,552</u>
TOTAL CURRENT LIABILITIES	<u>5,082,228</u>	<u>2,514,143</u>	<u>7,596,371</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources, pension activity	<u>-</u>	<u>88,863</u>	<u>88,863</u>
<b>LONG-TERM LIABILITIES</b>			
Unamortized bond premiums, net	914,603	183,319	1,097,922
Bonds payable, long-term portion	14,128,573	8,661,084	22,789,657
Net pension liability	-	1,499,546	1,499,546
Compensated absences	-	45,108	45,108
TOTAL LONG-TERM LIABILITIES	<u>15,043,176</u>	<u>10,389,057</u>	<u>25,432,233</u>
<b>NET POSITION</b>			
Net investment in capital assets	20,292,257	20,558,363	40,850,620
Restricted for debt service	12,138,956	1,992,038	14,130,994
Unrestricted	<u>(12,388,813)</u>	<u>685,145</u>	<u>(11,703,668)</u>
TOTAL NET POSITION	<u>20,042,400</u>	<u>23,235,546</u>	<u>43,277,946</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 40,167,804</u>	<u>\$ 36,227,609</u>	<u>\$ 76,395,413</u>

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2017

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Rental income, sewer system	\$ 2,596,074	\$ -	\$ 2,596,074
Charges for services	-	6,085,065	6,085,065
Royalties and other rentals	-	208,452	208,452
	<u>2,596,074</u>	<u>6,293,517</u>	<u>8,889,591</u>
<b>OPERATING EXPENSES</b>			
General government	-	570,153	570,153
Public works, water sanitation	-	2,398,519	2,398,519
Benefits and insurance	-	1,072,632	1,072,632
Depreciation and amortization	2,207,915	1,025,486	3,233,401
Administrative and general	94,864	6,863	101,727
Management fees	-	386,744	386,744
	<u>2,302,779</u>	<u>5,460,397</u>	<u>7,763,176</u>
	<u>293,295</u>	<u>833,120</u>	<u>1,126,415</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	623,622	56,212	679,834
Realized gains on investments	1,696,600	-	1,696,600
Unrealized gains (losses) on investments	(1,537,250)	10,879	(1,526,371)
Capital grants and contributions	269,243	-	269,243
Increase in accretion of bonds	(632,883)	-	(632,883)
Interest expense	(498,980)	(376,275)	(875,255)
Contribution from Borough sewer operating fund	1,300,000	-	1,300,000
Contribution to Borough public works facility	(100,000)	(100,000)	(200,000)
Contribution to Borough general fund	-	(23,173)	(23,173)
	<u>1,120,352</u>	<u>(432,357)</u>	<u>687,995</u>
	<u>1,413,647</u>	<u>400,763</u>	<u>1,814,410</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>			
	<u>18,628,753</u>	<u>22,834,783</u>	<u>41,463,536</u>
<b>NET POSITION AT END OF YEAR</b>			
	<u>\$ 20,042,400</u>	<u>\$ 23,235,546</u>	<u>\$ 43,277,946</u>

See accompanying notes to the basic financial statements.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ -	\$ 6,236,577	\$ 6,236,577
Cash receipts for rental of sewer system	2,623,947	-	2,623,947
Cash paid to suppliers	(98,087)	(2,573,041)	(2,671,128)
Cash paid to employees	-	(2,199,007)	(2,199,007)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,525,860</u>	<u>1,464,529</u>	<u>3,990,389</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interest paid on bonds	(502,142)	(376,783)	(878,925)
Contributions (to) from Borough	1,200,000	(100,000)	1,100,000
Principal paid on bonds	(4,420,000)	(1,517,427)	(5,937,427)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(3,722,142)</u>	<u>(1,994,210)</u>	<u>(5,716,352)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	(2,873,272)	(2,022,489)	(4,895,761)
Contributions from townships	269,243	-	269,243
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,604,029)</u>	<u>(2,022,489)</u>	<u>(4,626,518)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	623,622	56,212	679,834
Sale of investments	4,820,784	1,463,356	6,284,140
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,444,406</u>	<u>1,519,568</u>	<u>6,963,974</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,644,095	(1,032,602)	611,493
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	<u>2,248,192</u>	<u>4,012,809</u>	<u>6,261,001</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,892,287</u>	<u>\$ 2,980,207</u>	<u>\$ 6,872,494</u>
<b>CASH AND CASH EQUIVALENTS COMPRISED OF</b>			
Current	\$ 378,242	\$ 988,169	\$ 1,366,411
Restricted	<u>3,514,045</u>	<u>1,992,038</u>	<u>5,506,083</u>
	<u>\$ 3,892,287</u>	<u>\$ 2,980,207</u>	<u>\$ 6,872,494</u>

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

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 293,295	\$ 833,120	\$ 1,126,415
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	2,207,915	1,025,486	3,233,401
Bad debt expense	(3,223)	15,439	12,216
Pension expense	-	197,507	197,507
(Increase) decrease in			
Prepaid expenses	-	(45,532)	(45,532)
Receivables	-	(74,023)	(74,023)
Intergovernmental receivables	-	(25,879)	(25,879)
Other receivables	27,873	27,523	55,396
Increase (decrease) in			
Accounts payable and accrued expenses	-	(489,112)	(489,112)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,525,860</u>	 <u>\$ 1,464,529</u>	 <u>\$ 3,990,389</u>
 <b>SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of machinery, equipment and vehicles on account	\$ 557,162	\$ 795,660	\$ 1,352,822

*See accompanying notes to the basic financial statements.*

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

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

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

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

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

**Reporting Entity**

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

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

**Basis of Accounting**

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

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

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

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

**Cash and Cash Equivalents**

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

**Capital Assets**

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

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

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

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

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

Restricted cash and investments consist partially of funds of \$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.

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

**Investments**

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

**Revenues and Receivables**

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

**Net Position**

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

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

**Use of Estimates**

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

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

**Deferred Outflows/Inflows of Resources**

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

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

**NOTE B - DEPOSITS AND INVESTMENTS**

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

Investment Type	Amortized Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
U.S. Government Treasury Strips	\$ -	\$ 8,624,911	\$ -	\$ -	\$ 8,624,911
U.S. Government Securities	-	2,487,660	-	-	2,487,660
	\$ -	\$ 11,112,571	\$ -	\$ -	\$ 11,112,571

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

Investment Type	Investment Maturities		
	Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Government Treasury Strips	\$ 2,234,271	\$ 6,390,640	\$ -
U.S. Government Securities	-	2,487,660	-
	<u>\$ 2,234,271</u>	<u>\$ 8,878,300</u>	<u>\$ -</u>

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

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

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable consisted of utilities, interest and other revenues. Accounts receivable and the related allowance for doubtful accounts as of December 31, 2017, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Sewer Fund			
Other receivables	\$ 470,184	\$ 470,184	\$ -
Water Fund			
Trade receivables	\$ 1,194,337	\$ 182,639	\$ 1,011,698
Other receivables	32,646	-	32,646

**POTTSTOWN BOROUGH AUTHORITY**  
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**NOTE D - CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 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
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>2,620,050</u>	<u>3,430,434</u>	<u>(2,486,366)</u>	<u>3,564,118</u>
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
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>42,057,864</u>	<u>2,486,367</u>	<u>-</u>	<u>44,544,231</u>
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)
TOTAL ACCUMULATED DEPRECIATION	<u>(18,609,548)</u>	<u>(2,325,318)</u>	<u>-</u>	<u>(20,934,866)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>23,448,316</u>	<u>161,049</u>	<u>-</u>	<u>23,609,365</u>
SEWER FUND CAPITAL ASSETS, net	<u>\$ 26,068,366</u>	<u>\$ 3,591,483</u>	<u>\$ (2,486,366)</u>	<u>\$ 27,173,483</u>
<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
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>4,124,779</u>	<u>2,818,149</u>	<u>(2,977,940)</u>	<u>3,964,988</u>
Capital assets being depreciated				
Machinery and equipment	1213,621	-	-	1,213,621
Infrastructure	34,314,345	2,977,940	-	37,292,285
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>35,527,966</u>	<u>2,977,940</u>	<u>-</u>	<u>38,505,906</u>
Accumulated depreciation				
Machinery and equipment	(827,998)	(71,604)	-	(899,602)
Infrastructure	(12,002,284)	(973,079)	-	(12,975,363)
TOTAL ACCUMULATED DEPRECIATION	<u>(12,830,282)</u>	<u>(1,044,683)</u>	<u>-</u>	<u>(13,874,965)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>22,697,684</u>	<u>1,933,257</u>	<u>-</u>	<u>24,630,941</u>
WATER FUND CAPITAL ASSETS, net	<u>\$ 26,822,463</u>	<u>\$ 4,751,406</u>	<u>\$ (2,977,940)</u>	<u>\$ 28,595,929</u>

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.

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**NOTE E - LONG-TERM LIABILITIES**

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

	Balance Outstanding January 1, 2017	Additions	Deletions	Balance Outstanding December 31, 2017	Due Within One Year
<b>SEWER FUND</b>					
<b>BONDS AND NOTES PAYABLE</b>					
Bond premium	\$ 1,145,022	\$ -	\$ (230,419)	\$ 914,603	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	9,365,690	632,883 (1)	(2,260,000)	7,738,573	2,265,000
Guaranteed Sewer Revenue 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
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<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>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 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
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<u>11,982,913</u>	<u>-</u>	<u>(1,607,980)</u>	<u>10,374,933</u>	<u>1,536,552</u>
<b>OTHER LIABILITIES</b>					
Net pension liability	1,054,503	445,043	-	1,499,546	-
Compensated absences	44,916	192	-	45,108	-
<b>TOTAL OTHER LIABILITIES</b>	<u>1,099,419</u>	<u>445,235</u>	<u>-</u>	<u>1,544,654</u>	<u>-</u>
<b>TOTAL WATER FUND LONG-TERM LIABILITIES</b>	<u>\$ 13,082,332</u>	<u>\$ 445,235</u>	<u>\$ (1,607,980)</u>	<u>\$ 11,919,587</u>	<u>\$ 1,536,552</u>

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

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

**Guaranteed Sewer Bonds, Series of 1991**

On September 15, 1991, the Authority issued approximately \$15.4 million in Guaranteed Sewer Bonds for the purpose of refunding the Authority's debt service on the Guaranteed Sewer Bonds, Series of 1989, maturing from November 1, 1991 to and including May 1, 1999. The bonds issued are in the form of capital appreciation bonds, which means bonds that bear no periodic, current interest but which accrete in value from the date thereof to the date of maturity thereof at the compounded yield to maturity on the original principal amount, in lieu of such periodic, current interest. The original maturity value of the Series of 1991 Bonds is \$51,085,000. The remaining value of the Series of 1991 Bonds is \$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 Fund Bond, Series of 1991, is secured by a Trust Indenture. The bonds are payable out of escrow funds and the revenues of the Authority, principally from a Fourth Supplemental Lease dated December 15, 1996, originally dated May 1, 1989, between the Authority (lessor) and the Borough (lessee). The Borough agrees to pay semiannual rents of varying amounts coinciding with the life of the Authority bond issue and sufficient to pay the Authority's debt service requirements.

The Authority entered into an escrow agreement on December 15, 1996, whereby funds were deposited in an escrow account to fund a portion of maturity values for the 1991 Bonds. At December 31, 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 Outstanding</u>	<u>Portion of Bonds Outstanding for Which Funds are Escrowed</u>	<u>Maturing May 1, and November 1,</u>	<u>Interest Rate</u>
\$ 2,147,863	\$ 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>		

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

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

Bonds outstanding at gross maturity value are as follows:

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

**Sewer Revenue Bonds of 2012**

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

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

**POTTSTOWN BOROUGH AUTHORITY**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE E - LONG-TERM LIABILITIES (Continued)**

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 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>		

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

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

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 1,860,000	\$ 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>		

**POTTSTOWN BOROUGH AUTHORITY**  
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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds, Series of 2007**

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

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 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%
<u>\$ 2,552,636</u>	<u>\$ 656,108</u>		

**POTTSTOWN BOROUGH AUTHORITY**  
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**NOTE E - LONG-TERM LIABILITIES (Continued)**

**Water Revenue Bonds of 2012**

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

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 75,000	\$ 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>		

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

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

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

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 1,255,000	\$ 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.

**NOTE F - CONDUIT DEBT**

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

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

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

In November 2008, the Authority authorized the issuance of a Revenue Note totaling \$4,000,000 for the purpose of assisting a Pennsylvania nonprofit corporation in the acquisition, improvement, construction and equipping of a rehabilitation facility within the Borough. 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 G - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2017. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE H - SEWER SYSTEM LEASE AGREEMENT**

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

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

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

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

<u>Year Ending</u> <u>December 31,</u>	
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>

Rents received from the Borough in 2017 were \$2,596,074.

**NOTE I - MANAGEMENT AGREEMENT**

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

Management fees for the year ended December 31, 2017, were \$386,744.

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

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

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

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

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

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

**Summary of Significant Accounting Policies**

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

**Plan Description**

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

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

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

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

The Authority's portion of the MMO obligation for the plan was \$110,676 for the year ended December 31, 2017.

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

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

At December 31, 2017, the Authority reported a liability of \$1,499,546 for its proportionate share of the net pension liability. The net position liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The Authority's proportion of the net pension liability was based on the Authority's share of the minimum municipal obligation relative to the total minimum municipal obligation. At December 31, 2017, the Authority's proportion was 32.26%.

For the year ended December 31, 2017, the Authority recognized pension expense of \$308,183, including the MMO obligation of \$110,676. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 77,588	\$ 88,863
Changes in assumptions	221,235	-
Net difference between projected and actual earnings on pension plan investments	<u>376,020</u>	<u>-</u>
TOTALS	<u>\$ 674,843</u>	<u>\$ 88,863</u>

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

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

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 148,541
2019	237,404
2020	73,008
2021	67,263
2022	<u>59,764</u>
	<u>\$ 585,980</u>

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

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	50.00%	5.50% - 7.50%
International equity	0.00%	4.50% - 6.50%
Fixed income	50.00%	1.00% - 3.00%
Real estate	0.00%	4.50% - 6.50%
Cash	0.00%	0.00% - 1.00%
	<u>100.00%</u>	

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

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

	<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
Authority's proportionate share of the net pension liability	\$ <u>2,184,236</u>	\$ <u>1,499,546</u>	\$ <u>918,409</u>

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**POTTSTOWN BOROUGH AUTHORITY**  
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 SCHEDULES OF THE AUTHORITY'S CONTRIBUTIONS  
 LAST TWO FISCAL YEARS

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