

**BOROUGH OF POTTSTOWN**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2015*



*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

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**YEAR ENDED DECEMBER 31, 2015**

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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, 2015, and the related notes to the financial statements, which collectively comprise the Borough of Pottstown's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Borough of Pottstown as of December 31, 2015, 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).

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

***Emphasis of Matter***

As discussed in Note A to the financial statements, for the year ended December 31, 2015, the Borough of Pottstown adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 6 through 18, budgetary comparison information on pages 71 through 76, pension plan information on pages 78 through 80 and postemployment benefits other than pension funding progress on page 81 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016, 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  
June 6, 2016

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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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, 2015. 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, 2015.

**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, 2015

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

**Government-Wide Financial Statements**

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

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

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

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

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

There are two categories of activities for the primary government.

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

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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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, 2015

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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 \$47.5 million for 2015, which represents an increase of \$6.5 million, or 16%, over 2014. Government capital assets increased by \$5.8 million primarily from construction costs related to the building of a new public works facility. In addition a new fire truck was purchased and costs were incurred for the airport runway rehabilitation. Other assets increased by \$.8 million or 4% over 2014. The increase was the result of higher customer accounts receivable and cash and investments in business type activities. Cash and cash equivalents decreased by \$3.7 million. This resulted from the investment of \$1.0 million in government and \$4.0 million in business type activities. These fixed income investments were made in longer term securities to maximize returns. These increases were offset by lower grants receivable due to the completion of major grant projects.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2015**

Total liabilities were \$28.9 million and increased by \$11.3 million or 65% in 2015. Other liabilities increased by \$1.8 million because of an increase in accrued liabilities primarily related to the new public works facility and the purchase of eco-friendly trash and recycling receptacles. Long-term liabilities increased by \$9.5 million. Beginning in 2015, in accordance with Government Accounting Standards Board Statement No. 68., the Borough began recognizing the net pension liability for the police pension plan which represented \$5.1 million of the increase in long-term liabilities. In addition, the other post-employment benefits liability increased by \$1.8 million. Notes payable increase by \$2.0 million due to a draw-down of the General Obligation Note to fund the construction of the new public works facility. Long-term capital leases increased by \$.6 million due to the purchase of a new fire truck.

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 2015 financial statements.

***Condensed Statements of Net Position***

	Governmental Activities		Business-Type Activities		Totals		Variance
	2015	2014	2015	2014	2015	2014	
<b>ASSETS</b>							
Capital assets	\$ 26,578,880	\$ 20,821,462	\$ 780,818	\$ 829,963	\$ 27,359,698	\$ 21,651,425	\$ 5,708,273
Other assets	11,965,180	11,594,285	8,185,586	7,798,412	20,150,766	19,392,697	758,069
<b>TOTAL ASSETS</b>	<b>38,544,060</b>	<b>32,415,747</b>	<b>8,966,404</b>	<b>8,628,375</b>	<b>47,510,464</b>	<b>41,044,122</b>	<b>6,466,342</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflows of resources, pension activity	2,428,631	-	-	-	2,428,631	-	2,428,631
<b>LIABILITIES</b>							
Other liabilities	3,325,172	1,479,893	637,305	666,403	3,962,477	2,146,296	1,816,181
Long-term liabilities	24,845,564	15,333,281	61,306	65,261	24,906,870	15,398,542	9,508,328
<b>TOTAL LIABILITIES</b>	<b>28,170,736</b>	<b>16,813,174</b>	<b>698,611</b>	<b>731,664</b>	<b>28,869,347</b>	<b>17,544,838</b>	<b>11,324,509</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows of resources, pension activity	720,998	-	-	-	720,998	-	720,998
<b>NET POSITION</b>							
Net investment in capital assets	22,752,643	19,620,577	780,818	829,963	23,533,461	20,450,540	3,082,921
Restricted	2,346,341	2,972,092	-	-	2,346,341	2,972,092	(625,751)
Unrestricted	(13,018,027)	(6,990,096)	7,486,975	7,066,748	(5,531,052)	76,652	(5,607,704)
<b>TOTAL NET POSITION</b>	<b>\$ 12,080,957</b>	<b>\$ 15,602,573</b>	<b>\$ 8,267,793</b>	<b>\$ 7,896,711</b>	<b>\$ 20,348,750</b>	<b>\$ 23,499,284</b>	<b>\$ (3,150,534)</b>

***Changes in Net Position***

The statement of activities represents changes in net position for the year ended December 31, 2015. 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, 2015**

**Condensed Statements of Activities**

	Governmental Activities		Business-Type Activities		Totals		Variance
	2015	2014	2015	2014	2015	2014	
<b>REVENUES</b>							
Program revenues							
Charges for services	\$ 5,170,014	\$ 5,293,457	\$ 9,129,584	\$ 9,113,000	\$ 14,299,598	\$ 14,406,457	\$ (106,859)
Operating grants and contributions	3,459,676	3,349,368	-	-	3,459,676	3,349,368	110,308
Capital grants and contributions	752,384	1,845,298	-	-	752,384	1,845,298	(1,092,914)
General revenues							
Real estate taxes	8,400,216	8,236,445	-	-	8,400,216	8,236,445	163,771
Earned income taxes	2,240,175	2,151,762	-	-	2,240,175	2,151,762	88,413
Other taxes	787,312	690,029	-	-	787,312	690,029	97,283
Unrestricted licenses and fees	487,913	498,850	-	-	487,913	498,850	(10,937)
Loss on sale of capital assets	(1,505)	(16,041)	-	-	(1,505)	(16,041)	14,536
Unrestricted investment earnings	30,124	22,274	5,616	5,958	35,740	28,232	7,508
Royalties and rental income	12,418	-	-	-	12,418	-	12,418
Realized loss on investments	(102,843)	(27,808)	-	-	(102,843)	(27,808)	(75,035)
Unrealized gain (loss) on investments	75,162	47,702	(22,900)	-	52,262	47,702	4,560
Reimbursement from Pottstown Borough Authority	403,652	7,832	-	-	403,652	7,832	395,820
Miscellaneous	116,088	83,888	204,354	58,236	320,442	142,124	178,318
Transfers	6,412	7,832	(6,412)	(7,832)	-	-	-
<b>TOTAL REVENUES</b>	<b>21,837,198</b>	<b>22,190,888</b>	<b>9,310,242</b>	<b>9,169,362</b>	<b>31,147,440</b>	<b>31,360,250</b>	<b>(212,810)</b>
<b>EXPENSES</b>							
General government	3,361,377	3,102,377	-	-	3,361,377	3,102,377	259,000
Public safety	10,461,206	9,441,147	-	-	10,461,206	9,441,147	1,020,059
Public works	6,655,875	6,800,475	-	-	6,655,875	6,800,475	(144,600)
Culture and recreation	1,335,200	1,286,985	-	-	1,335,200	1,286,985	48,215
Conservation and development	232,132	505,043	-	-	232,132	505,043	(272,911)
Debt service	61,876	59,264	-	-	61,876	59,264	2,612
Contribution to Pottstown Borough Authority	-	-	819,203	800,000	819,203	800,000	19,203
Sewer services	-	-	8,119,957	7,959,015	8,119,957	7,959,015	160,942
<b>TOTAL EXPENSES</b>	<b>22,107,666</b>	<b>21,195,291</b>	<b>8,939,160</b>	<b>8,759,015</b>	<b>31,046,826</b>	<b>29,954,306</b>	<b>1,092,520</b>
<b>CHANGE IN NET POSITION</b>	<b>(270,468)</b>	<b>995,597</b>	<b>371,082</b>	<b>410,347</b>	<b>100,614</b>	<b>1,405,944</b>	<b>(1,305,330)</b>
<b>NET POSITION, restated 2015</b>	<b>12,351,425</b>	<b>14,606,976</b>	<b>7,896,711</b>	<b>7,486,364</b>	<b>20,248,136</b>	<b>22,093,340</b>	<b>(1,845,204)</b>
<b>NET POSITION - DECEMBER 31</b>	<b>\$ 12,080,957</b>	<b>\$ 15,602,573</b>	<b>\$ 8,267,793</b>	<b>\$ 7,896,711</b>	<b>\$ 20,348,750</b>	<b>\$ 23,499,284</b>	<b>\$ (3,150,534)</b>

The Governmental Activities net position decreased by \$.3 million in 2015 after a \$3.3 million restatement of the beginning balance to reflect the net pension liability for the police pension plan. The \$.3 million decrease was primarily the result of reduced capital grant activity due to lower expenditures for the airport runway rehabilitation and completion of the storm water arch program.

Total revenues for 2015 were \$31.1 million and decreased by \$.2 million from 2014. The decrease resulted from the decreased grant activity offset by increased contributions from the Pottstown Borough Authority for the first installment of a ten year contribution for the new public works facility, payments received from the Authority for shared fixed assets purchased during 2015 and slightly higher real estate and other taxes. Charges for services decreased by \$.1 million due to a reduction in quarterly trash fees implemented in 2015. Business-type activity revenues were slightly higher due to recording of an insurance receivable for damage to one of the screw pumps at the wastewater treatment plant. Operating grants increased by \$.1 million and consisted of variances in many grants. These included increases in the summer lunch program, liquid fuels tax, a grant to do building repairs to the library, and a grant to outfit the police cars with video cameras. These increases were offset by a decrease in the recycling grant and an adjustment to a previously recorded grant for Memorial Park.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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Total expenses were \$31 million and increased by \$1.1 million, or 3.5%, in 2015. General government increased by \$.3 million as a result of higher health care, workers' compensation and pension costs and was offset by lower general engineering costs resulting from substantial completion of the public works facility engineering services as well as discontinuing the use of the Borough engineer for rental inspections in 2015. Public safety increased by \$1.0 million because of higher police wages and wage related expenses, higher other post-employment benefit expense and higher Borough contributions to the four fire companies. Public works decreases by \$.1 million as a result of lower contracted trash removal costs offset by higher salaries and wages and higher operating costs of the urban transit system. Conservation and development decreased \$.3 million due to the completion of homeowner initiative and owner occupied housing programs in 2014.

Sewer services expense increased by \$.2 million. This increase was due to higher electric and gas utility costs resulting from increased thermal dryer operations offset by lower engineering expense resulting from the completion of a major sewer plant operating review in 2014.

**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 2015, general real estate taxes brought in \$8.4 million and were \$.2 million higher than 2014. The net program expenses for the year ended December 31, 2015, 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 for 2015 decreased by \$1 million from \$812 million in 2014.

There was no increase in Borough taxes in 2015. 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, without an appropriate and supportive fund balance, the Borough may suffer negative long-term ramifications when additional tax revenues are necessary.

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, 2015**

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

<u>Program</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government	\$ 3,361,377	\$ (2,484,372)
Public safety	10,461,206	(9,014,461)
Public works	6,655,875	(677,678)
Culture and recreation	1,335,200	(1,008,587)
Conservation and development	232,132	521,382
Sewer services	8,119,957	1,009,627
	<u>\$ 30,165,747</u>	<u>\$ (11,654,089)</u>

Total Net Cost of Services is \$2.2 million higher when compared to the prior year primarily due to higher general government expenses and the reduced grant activity in conservation and development.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Borough's capital assets at December 31, 2015, net of accumulated depreciation, were \$27.4 million. Capital assets consist primarily of land, buildings, equipment and infrastructure. The table below is a summary of capital assets at December 31, 2015, and compares 2015 with 2014.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>		<u>Variance</u>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
<b>CAPITAL ASSETS</b>							
Land	\$ 2,648,352	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352	\$ 2,648,352	\$ -
Construction in progress	6,538,926	1,746,336	-	-	6,538,926	1,746,336	4,792,590
Land improvements	9,003,765	9,003,765	-	-	9,003,765	9,003,765	-
Buildings and improvements	8,100,686	8,100,686	-	-	8,100,686	8,100,686	-
Machinery and equipment	10,484,492	8,869,033	482,287	482,287	10,966,779	9,351,320	1,615,459
Infrastructure	4,628,205	4,880,768	5,752,740	5,752,740	10,380,945	10,633,508	(252,563)
Accumulated depreciation	<u>(14,825,546)</u>	<u>(14,427,478)</u>	<u>(5,454,209)</u>	<u>(5,405,064)</u>	<u>(20,279,755)</u>	<u>(19,832,542)</u>	<u>(447,213)</u>
CAPITAL ASSETS, net	<u>\$ 26,578,880</u>	<u>\$ 20,821,462</u>	<u>\$ 780,818</u>	<u>\$ 829,963</u>	<u>\$ 27,359,698</u>	<u>\$ 21,651,425</u>	<u>\$ 5,708,273</u>

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

Construction in progress increased by \$4.8 million primarily because of construction of the new public works facility which is scheduled to be completed in 2016. Additional costs were incurred for the airport runway project and the design of the walk/bike Pottstown project.

Government machinery and equipment increased by \$1.6 million because of the purchase of a new fire engine, two new dump trucks, eco-friendly trash and recycling receptacles, and various police and public works vehicles.

Infrastructure assets decreased by \$.3 million. The decrease is the result of the retirement of the old airport runway assets which is offset by increases due to major road restoration project, additional costs for the closed loop traffic light project and a major sidewalk repair program.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2015**

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Accumulated depreciation increased by \$.4 million due to the recording of 2015 depreciation offset by the accumulated depreciation related to the retirement of the airport runway assets.

**Debt Administration**

Long-term liabilities were \$25.2 million at December 31, 2015. General Obligation Notes increased by \$2.0 million, net of principal payments, due to draw-downs to fund the construction of the new public works facility. Capital lease payable increased by \$.6 million, net of principal payments, as a result of the purchase of a new fire engine. In addition, during 2015, the police pension liability was recorded with the 2014 balance being restated. The following is a summary of changes in long-term debt.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Notes	\$ 795,283	\$ 2,167,017	\$ (185,000)	\$ 2,777,300
Capital lease payable	405,602	725,007	(81,672)	1,048,937
OPEB liability	14,024,745	1,767,627	-	15,792,372
Compensated absences	365,730	52,572	-	418,302
Pension liability	<u>3,251,146</u>	<u>1,892,668</u>	<u>-</u>	<u>5,143,814</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 18,842,506</u>	<u>\$ 6,604,891</u>	<u>\$ (266,672)</u>	<u>\$ 25,180,725</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Compensated absences	<u>\$ 65,261</u>	<u>\$ -</u>	<u>\$ (3,955)</u>	<u>\$ 61,306</u>

Detailed information about the Borough's Long-term Liabilities can be found in Note I to the Financial Statements.

**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.

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2015**

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**Governmental Funds Revenues**

Governmental Funds revenues by source at December 31, 2015 and 2014, were as follows:

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

	<u>2015</u>	<u>2014</u>	<u>Variation</u>
REVENUES			
Taxes	\$ 11,475,642	\$ 11,093,320	\$ 382,322
Intergovernmental	4,200,566	5,124,100	(923,534)
Charges for services	4,894,916	5,043,965	(149,049)
Fees, licenses and permits	477,913	494,725	(16,812)
Court costs and fines	202,936	169,694	33,242
Interest and rents	42,542	32,469	10,073
Miscellaneous	<u>98,104</u>	<u>243,656</u>	<u>(145,552)</u>
<b>TOTAL REVENUES</b>	<b>\$ <u>21,392,619</u></b>	<b>\$ <u>22,201,929</u></b>	<b>\$ <u>(809,310)</u></b>

Governmental Funds revenues totaled \$21.4 million for the year ended December 31, 2015, and decreased \$.8 million. Intergovernmental revenues decreased by \$.9 million as a result of lower capital grant activity. Charges for services decreased due to a reduction in the quarterly trash fee implemented in 2015. Miscellaneous revenues decreased because 2014 included a one-time contribution and realized and unrealized investment losses were higher.

**Governmental Funds Expenditures**

Governmental Funds expenditures by source at December 31, 2015 and 2014, were as follows:

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

	<u>2015</u>	<u>2014</u>	<u>Variation</u>
EXPENDITURES			
General government	\$ 3,051,383	\$ 2,933,647	\$ 117,736
Public safety	8,413,156	8,163,312	249,844
Public works	6,728,035	6,855,108	(127,073)
Culture and recreation	1,571,931	1,992,025	(420,094)
Capital projects	4,720,182	113,954	4,606,228
Conservation and development	505,828	1,013,405	(507,577)
Debt service	<u>326,619</u>	<u>506,954</u>	<u>(180,335)</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>25,317,134</u></b>	<b>\$ <u>21,578,405</u></b>	<b>\$ <u>3,738,729</u></b>

**BOROUGH OF POTTSTOWN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2015**

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Governmental Funds expenditures totaled \$25.3 million for the year ended December 31, 2015 versus \$21.6 million for the year ended December 31, 2014. General government increased as a result of higher health care and workers' compensation cost offset by lower engineering costs because 2014 included charges for the new public works facility and in the 2015 the use of the Borough engineer for rental inspections was discontinued. Public safety increased because of higher police wages and related expenses, higher police retiree health care expense and higher Borough contributions to the four fire companies. This was offset by lower capital purchases in 2015. Public works decreased due to lower grant expenditures due to the street light grant being completed in 2015, lower highway department capital expenditures in 2015 and lower contracted trash removal costs. These decreases were offset with the purchase of eco-friendly trash and recycling receptacles and higher licensing and inspection salaries as the full year impact of three new employees was reflected. The decrease in culture and recreation is the result of lower construction costs related to the airport runway rehabilitation. The increase in capital projects is primarily related to the construction of the new public works facility, the purchase of two new dump trucks and a major sidewalk repair program. Debt service decreased due to the final payments on capital leases.

**Governmental Fund Balances**

The ending balances for Governmental Funds and net position for Proprietary Funds at December 31, 2015, were as follows:

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

<u>Fund</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
General Fund	\$ 3,435,909	\$ -
Urban Transit Fund	1,192,256	-
Refuse Fund	2,895,839	-
Borough Grant Fund	(96,663)	-
Capital Operating Fund	(570,115)	-
Other Governmental Funds	1,806,598	-
Sewer Fund	-	8,075,135
Sewer Collection Lines Fund	-	192,658
	<u>\$ 8,663,824</u>	<u>\$ 8,267,793</u>

The Borough's Governmental Funds reported a combined fund balance of \$8.7 million at December 31, 2015. Governmental Funds had an unassigned fund balance of \$2.3 million, committed fund balance of \$.9 million and \$.2 million in non-spendable prepaid expenditures. The remaining \$5.3 million is restricted 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, 2015, the total General Fund balance was \$3.4 million. The fund balance at the end of 2015 was \$4.2 million.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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**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.

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

**Economic Conditions**

The Borough's assessed values decreased by \$1.0 million in 2015 continuing a long-term trend that has resulted in the Borough's current assessed values being equivalent to the assessed values in the 1984-1986 timeframe. 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 funds for the capital fit out of Armstrong Ale House, a brewery pub to be located on High Street in downtown Pottstown. In 2015, six buildings have been sold in the 100 and 200 blocks of High Street, representing a total investment of \$4.3 million, and will be refurbished and developed to improve the downtown business district.

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. In 2015, the Borough partnered with several organizations to develop a Tourism and Recreation District located in the western gateway to the Borough. Numerous recreation attractions exist, or are expanding, as a result of private and public investment.

In 2015, Precision Polymer Products, a medical device component manufacturer, expanded their existing headquarters at 815 South Street in the Borough. They purchased property at 824 Queen Street to expand operations and increased their existing workforce by 30 additional jobs. In addition, the Borough is undertaking a planning study titled the, "Keystone Employment and Economic Plan", in partnership with PAID, Inc., to maximize redevelopment opportunities on Keystone Boulevard in the Borough.

**BOROUGH OF POTTSTOWN**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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**Market Impact on Investment Income**

The Commonwealth restricts Borough investments to government secured funds and deposits with federally insured institutions. In March 2016, the governor signed legislation which authorized additional financial products to the approved list of approved investments. The Act adds high quality money market instruments including repurchase agreements, commercial paper, negotiable certificates of deposit and bankers' acceptances to the list of approved investments.

**Government Funding**

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

**Personnel Costs**

The Borough has contracts with two unions: The Pottstown Police Officers Association (PPOA) and the American Federation of State County and Municipal Employees (AFSCME). The current AFSCME contract is due to expire on December 31, 2016, and the PPOA is due to expire on December 31, 2016. The PPOA contract was renewed in 2014 without substantial changes. The Borough and AFSCME reached agreement on the current contract in March of 2016, also without substantial change.

**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, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents				
Unrestricted	\$ 5,964,177	\$ 2,652,509	\$ 8,616,686	\$ 4,348,359
Restricted	562,325	-	562,325	2,866,790
Investments				
Unrestricted	3,457,381	3,634,253	7,091,634	4,542,816
Restricted	-	-	-	15,616,176
Accounts receivable, net	863,071	1,804,905	2,667,976	917,131
Taxes receivable	421,980	-	421,980	-
Due from other governments	516,258	59,401	575,659	-
Other receivables	-	-	-	978,360
Internal balances	(18,430)	-	(18,430)	-
Prepaid expenses	198,418	34,518	232,936	27,060
Unamortized debt discounts, net	-	-	-	8,402
Capital assets not being depreciated	9,187,278	-	9,187,278	5,392,379
Capital assets being depreciated, net	17,391,602	780,818	18,172,420	46,173,604
<b>TOTAL ASSETS</b>	<b>38,544,060</b>	<b>8,966,404</b>	<b>47,510,464</b>	<b>80,871,077</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding, net of accumulated amortization	-	-	-	1,071,767
Deferred outflows of resources, pension activity	2,428,631	-	2,428,631	-
<b>TOTAL OUTFLOWS OF RESOURCES</b>	<b>2,428,631</b>	<b>-</b>	<b>2,428,631</b>	<b>1,071,767</b>
<b>LIABILITIES</b>				
Accounts payable	2,773,368	150,738	2,924,106	544,360
Accrued liabilities	178,572	15,037	193,609	-
Interest payable	19,650	-	19,650	115,363
Unearned revenue	18,422	-	18,422	-
Due to other governments	-	471,530	471,530	19,203
Bond premium	-	-	-	254,034
Long-term liabilities				
Portion due or payable within one year	335,161	-	335,161	5,891,160
Portion due or payable after one year	24,845,564	61,306	24,906,870	33,703,956
<b>TOTAL LIABILITIES</b>	<b>28,170,737</b>	<b>698,611</b>	<b>28,869,348</b>	<b>40,528,076</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources, pension activity	720,998	-	720,998	-
<b>NET POSITION</b>				
Net investment in capital assets	22,752,643	780,818	23,533,461	30,791,463
Restricted for				
Airport improvement	83,769	-	83,769	-
Capital improvements	(570,115)	-	(570,115)	-
Grants	1,256,006	-	1,256,006	-
Liquid fuels	327,313	-	327,313	-
Parking lot program purposes	110,917	-	110,917	-
Street lighting	76,643	-	76,643	-
Fire services	754,025	-	754,025	-
Library	13,380	-	13,380	-
Debt service	294,403	-	294,403	1,867,990
Unrestricted	(13,018,028)	7,486,975	(5,531,053)	8,755,315
<b>TOTAL NET POSITION</b>	<b>\$ 12,080,956</b>	<b>\$ 8,267,793</b>	<b>\$ 20,348,749</b>	<b>\$ 41,414,768</b>

See accompanying notes to the basic financial statements.

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities				
General government	\$ 3,361,377	\$ 736,054	\$ 140,951	\$ -
Public safety				
Police	9,061,314	460,250	773,133	-
Fire	1,399,892	91,574	121,788	-
Public works				
Zoning	1,382,081	43,026	-	-
Highways	734,430	45,286	492,944	-
Sanitation	2,389,946	2,537,222	-	-
Other	2,149,418	1,094,119	1,765,600	-
Culture and recreation				
Recreation	1,156,016	162,483	131,067	-
Library	179,184	-	33,063	-
Conservation and development	232,132	-	1,130	752,384
Interest on long-term debt	61,876	-	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>22,107,666</b>	<b>5,170,014</b>	<b>3,459,676</b>	<b>752,384</b>
Business-type activities				
Sewer	8,119,957	9,129,584	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 30,227,623</b>	<b>\$ 14,299,598</b>	<b>\$ 3,459,676</b>	<b>\$ 752,384</b>
<b>COMPONENT UNIT</b>				
Pottstown Borough Authority - Public Works	\$ 7,717,440	\$ 6,075,684	\$ -	\$ 1,062,948

**GENERAL REVENUES**

Taxes

  Real estate

  Per capita

  Transfer

  Earned income

  LST

Investment earnings

Royalties and rental income

Realized gains (losses) on investments

Unrealized gain (loss) on investments

Licenses and fees

Loss on sale of capital assets

Miscellaneous

CONTRIBUTION TO POTTSTOWN BOROUGH AUTHORITY

REIMBURSEMENT FROM POTTSTOWN BOROUGH AUTHORITY

TRANSFERS

TOTAL GENERAL REVENUES, CONTRIBUTION,  
REIMBURSEMENT AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

*See accompanying notes to the basic financial statements.*

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	Component Unit
\$ (2,484,372)	\$ -	\$ (2,484,372)	
(7,827,931)	-	(7,827,931)	
(1,186,530)	-	(1,186,530)	
(1,339,055)	-	(1,339,055)	
(196,200)	-	(196,200)	
147,276	-	147,276	
710,301	-	710,301	
(862,466)	-	(862,466)	
(146,121)	-	(146,121)	
521,382	-	521,382	
(61,876)	-	(61,876)	
(12,725,592)	-	(12,725,592)	
-	1,009,627	1,009,627	
(12,725,592)	1,009,627	(11,715,965)	
			\$ (578,808)
8,400,215	-	8,400,215	-
51,767	-	51,767	-
326,676	-	326,676	-
2,240,175	-	2,240,175	-
408,869	-	408,869	-
30,124	5,616	35,740	190,152
12,418	-	12,418	3,253,831
(102,843)	-	(102,843)	1,604,412
75,162	(22,900)	52,262	(1,420,617)
487,913	-	487,913	-
(1,505)	-	(1,505)	-
116,088	204,354	320,442	-
-	(819,203)	(819,203)	819,203
403,652	-	403,652	(403,652)
6,412	(6,412)	-	-
12,455,123	(638,545)	11,816,578	4,043,329
(270,469)	371,082	100,613	3,464,521
12,351,425	7,896,711	20,248,136	37,950,247
\$ 12,080,956	\$ 8,267,793	\$ 20,348,749	\$ 41,414,768

# BOROUGH OF POTTSTOWN

## BALANCE SHEET

### GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	<u>General Fund</u>	<u>Urban Transit Fund</u>
ASSETS		
Cash and cash equivalents	\$ 1,594,584	\$ 768,404
Restricted cash and cash equivalents	-	562,325
Investments	1,640,302	-
Receivables		
Accounts, net	126,796	-
Taxes	306,463	-
Due from other governments	205	238,425
Prepaid expenditures	120,184	-
Due from other funds	1,751,449	-
	<u>1,751,449</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,539,983</u>	<u>\$ 1,569,154</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)		
LIABILITIES		
Accounts payable	\$ 1,709,549	\$ 358,468
Accrued liabilities	171,422	-
Due to other funds	-	18,430
Unearned revenue	-	-
	<u>1,880,971</u>	<u>376,898</u>
TOTAL LIABILITIES	<u>1,880,971</u>	<u>376,898</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue, property taxes	<u>223,103</u>	<u>-</u>
FUND BALANCES (DEFICIT)		
Nonspendable, prepaid expenditures	120,184	-
Restricted for		
Airport improvement	-	-
Capital improvements	-	-
Grants	-	1,170,906
Liquid fuels	-	-
Parking lot program purposes	-	-
Street lighting	-	-
Fire services	-	-
Library	-	-
Debt service	-	-
Assigned to		
Urban transit	-	21,350
Refuse	-	-
Committed, OPEB	931,003	-
Unassigned	2,384,722	-
	<u>2,384,722</u>	<u>-</u>
TOTAL FUND BALANCES (DEFICIT)	<u>3,435,909</u>	<u>1,192,256</u>
	<u>3,435,909</u>	<u>1,192,256</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	<u>\$ 5,539,983</u>	<u>\$ 1,569,154</u>

See accompanying notes to the basic financial statements.

<u>Refuse Fund</u>	<u>Borough Grant Fund</u>	<u>Capital Operating Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,586,096	\$ -	\$ 84,905	\$ 1,930,188	\$ 5,964,177
-	-	-	-	562,325
908,516	-	908,563	-	3,457,381
734,485	-	-	1,790	863,071
-	-	-	115,517	421,980
-	277,628	-	-	516,258
17,186	-	-	61,048	198,418
-	-	-	-	1,751,449
<u>\$ 3,246,283</u>	<u>\$ 277,628</u>	<u>\$ 993,468</u>	<u>\$ 2,108,543</u>	<u>\$ 13,735,059</u>
\$ 349,696	\$ 30,214	\$ 287,590	\$ 56,922	\$ 2,792,439
748	-	-	6,402	178,572
-	337,081	1,275,993	119,304	1,750,808
-	6,996	-	11,426	18,422
<u>350,444</u>	<u>374,291</u>	<u>1,563,583</u>	<u>194,054</u>	<u>4,740,241</u>
-	-	-	107,891	330,994
17,186	-	-	61,048	198,418
-	-	-	83,769	83,769
-	-	(570,115)	-	(570,115)
-	-	-	85,100	1,256,006
-	-	-	327,313	327,313
-	-	-	110,917	110,917
-	-	-	76,643	76,643
-	-	-	754,025	754,025
-	-	-	13,380	13,380
-	-	-	294,403	294,403
-	-	-	-	21,350
2,878,653	-	-	-	2,878,653
-	-	-	-	931,003
-	(96,663)	-	-	2,288,059
<u>2,895,839</u>	<u>(96,663)</u>	<u>(570,115)</u>	<u>1,806,598</u>	<u>8,663,824</u>
<u>\$ 3,246,283</u>	<u>\$ 277,628</u>	<u>\$ 993,468</u>	<u>\$ 2,108,543</u>	<u>\$ 13,735,059</u>

# BOROUGH OF POTTSTOWN

## RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2015

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TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 8,663,824
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Cost of capital assets	41,404,426
Accumulated depreciation	(14,825,546)
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.</p>	
	1,707,633
<p>Long-term liabilities applicable to the Borough's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.</p>	
Interest payable	(19,650)
Compensated absences	(418,302)
Net OPEB obligation	(15,792,372)
Capital leases	(1,048,937)
General obligation note	(2,777,300)
Net pension liability	(5,143,814)
<p>Some of the Borough's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>330,994</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 12,080,956</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, 2015**

	<u>General Fund</u>	<u>Urban Transit Fund</u>
<b>REVENUES</b>		
Taxes	\$ 8,718,989	\$ -
Intergovernmental	914,084	1,765,600
Charges for services	1,589,596	332,188
Fees, licenses and permits	477,913	-
Court costs and fines	202,936	-
Interest and rents	24,123	1,304
Miscellaneous	76,531	-
	<u>12,004,172</u>	<u>2,099,092</u>
<b>TOTAL REVENUES</b>		
<b>EXPENDITURES</b>		
General government	3,040,224	-
Public safety		
Police department	7,013,264	-
Fire department	-	-
Public works		
Zoning	623,968	-
Highways	253,339	-
Sanitation	-	-
Other public works	3,452	2,099,323
Culture and recreation		
Recreation	10,525	-
Library	-	-
Capital projects	-	-
Conservation and development	198,495	-
Debt service		
Principal	-	-
Interest	-	-
	<u>11,143,267</u>	<u>2,099,323</u>
<b>TOTAL EXPENDITURES</b>		
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>		
	<u>860,905</u>	<u>(231)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from debt issuance	-	-
Transfers in	50,000	-
Transfers out	(1,650,000)	-
Contribution from Pottstown Borough Authority	-	-
	<u>(1,600,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		
<b>NET CHANGE IN FUND BALANCES</b>		
	(739,095)	(231)
<b>FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR</b>		
	<u>4,175,004</u>	<u>1,192,487</u>
<b>FUND BALANCES (DEFICIT) AT END OF YEAR</b>		
	<u>\$ 3,435,909</u>	<u>\$ 1,192,256</u>

*See accompanying notes to the basic financial statements.*

<u>Refuse Fund</u>	<u>Borough Grant Fund</u>	<u>Capital Operating Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 2,756,653	\$ 11,475,642
-	752,491	-	768,391	4,200,566
2,551,811	-	-	421,321	4,894,916
-	-	-	-	477,913
-	-	-	-	202,936
1,875	-	644	14,596	42,542
9,650	-	4,475	7,448	98,104
<u>2,563,336</u>	<u>752,491</u>	<u>5,119</u>	<u>3,968,409</u>	<u>21,392,619</u>
-	-	-	11,159	3,051,383
-	-	68,684	-	7,081,948
-	-	-	1,399,892	1,399,892
-	-	57,015	-	680,983
-	151,571	-	804,058	1,208,968
2,558,640	-	-	-	2,558,640
-	-	-	107,985	2,210,760
-	370,181	-	1,012,041	1,392,747
-	-	-	179,184	179,184
-	-	4,720,182	-	4,720,182
-	307,333	-	-	505,828
-	-	-	266,672	266,672
-	-	-	59,947	59,947
<u>2,558,640</u>	<u>829,085</u>	<u>4,845,881</u>	<u>3,840,938</u>	<u>25,317,134</u>
<u>4,696</u>	<u>(76,594)</u>	<u>(4,840,762)</u>	<u>127,471</u>	<u>(3,924,515)</u>
-	-	2,167,017	-	2,167,017
-	150,000	1,581,412	-	1,781,412
-	-	(50,000)	(75,000)	(1,775,000)
-	-	203,652	200,000	403,652
<u>-</u>	<u>150,000</u>	<u>3,902,081</u>	<u>125,000</u>	<u>2,577,081</u>
4,696	73,406	(938,681)	252,471	(1,347,434)
<u>2,891,143</u>	<u>(170,069)</u>	<u>368,566</u>	<u>1,554,127</u>	<u>10,011,258</u>
<u>\$ 2,895,839</u>	<u>\$ (96,663)</u>	<u>\$ (570,115)</u>	<u>\$ 1,806,598</u>	<u>\$ 8,663,824</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, 2015

---

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,347,434)

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$7,046,686) exceed depreciation (\$1,287,763) in the current period.

5,758,923

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net position.

(1,505)

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

(47,940)

Note 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. In addition, the accretion of capital appreciation bonds is not reflected in the Governmental Funds. However, this accretion is recognized as an increase in long-term liabilities in the statement of net position and as an expense in the statement of activities.

Debt issued

General obligation debt

(2,167,017)

Capital leases

(725,007)

Repayments

Capital leases

81,672

General obligation debt

185,000

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

(52,572)

Net OPEB obligation

(1,767,627)

Pension plan expense

(185,033)

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

(1,929)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ (270,469)

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,479,553	\$ 172,956	\$ 2,652,509
Investments	3,634,253	-	3,634,253
Receivables, net	1,804,905	-	1,804,905
Due from other governments	40,198	19,203	59,401
Prepaid expenses	25,631	8,887	34,518
	<u>7,984,540</u>	<u>201,046</u>	<u>8,185,586</u>
<b>TOTAL CURRENT ASSETS</b>			
<b>CAPITAL ASSETS</b>			
Capital assets being depreciated	6,235,027	-	6,235,027
Accumulated depreciation	(5,454,209)	-	(5,454,209)
	<u>780,818</u>	<u>-</u>	<u>780,818</u>
<b>TOTAL CAPITAL ASSETS</b>			
	<u>\$ 8,765,358</u>	<u>\$ 201,046</u>	<u>\$ 8,966,404</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 148,587	\$ 2,151	\$ 150,738
Accrued liabilities	13,085	1,952	15,037
Due to other governments	471,530	-	471,530
	<u>633,202</u>	<u>4,103</u>	<u>637,305</u>
<b>TOTAL CURRENT LIABILITIES</b>			
<b>COMPENSATED ABSENCES</b>			
	<u>57,021</u>	<u>4,285</u>	<u>61,306</u>
<b>NET POSITION</b>			
Net investment in capital assets	780,818	-	780,818
Unrestricted	7,294,317	192,658	7,486,975
	<u>8,075,135</u>	<u>192,658</u>	<u>8,267,793</u>
<b>TOTAL NET POSITION</b>			
	<u>\$ 8,765,358</u>	<u>\$ 201,046</u>	<u>\$ 8,966,404</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>			

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, 2015**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ <u>9,129,584</u>	\$ <u>-</u>	\$ <u>9,129,584</u>
<b>OPERATING EXPENSES</b>			
Sewage disposal	3,595,093	-	3,595,093
Public works, general service	32,827	-	32,827
Sewer lines	-	467,443	467,443
General expenses	91,638	-	91,638
Insurance	53,524	-	53,524
Employee benefits	380,478	-	380,478
General government	10,617	-	10,617
Executive	87,880	-	87,880
Financial administration	197,539	-	197,539
Personnel administration	42,850	-	42,850
Building maintenance	48,039	-	48,039
Depreciation	49,145	-	49,145
Lease payments	3,062,884	-	3,062,884
<b>TOTAL OPERATING EXPENSES</b>	<u>7,652,514</u>	<u>467,443</u>	<u>8,119,957</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,477,070</u>	<u>(467,443)</u>	<u>1,009,627</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	5,390	226	5,616
Unrealized loss on investments	(22,900)	-	(22,900)
Miscellaneous revenue	200,795	3,559	204,354
Contribution to Pottstown Borough Authority	(800,000)	(19,203)	(819,203)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(616,715)</u>	<u>(15,418)</u>	<u>(632,133)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>860,355</u>	<u>(482,861)</u>	<u>377,494</u>
<b>TRANSFERS</b>			
Transfers in	-	510,000	510,000
Transfers out	(516,412)	-	(516,412)
<b>TOTAL TRANSFERS</b>	<u>(516,412)</u>	<u>510,000</u>	<u>(6,412)</u>
<b>CHANGE IN NET POSITION</b>	<u>343,943</u>	<u>27,139</u>	<u>371,082</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>7,731,192</u>	<u>165,519</u>	<u>7,896,711</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 8,075,135</u>	<u>\$ 192,658</u>	<u>\$ 8,267,793</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from charges for services	\$ 8,930,488	\$ -	\$ 8,930,488
Payment to employees	(1,494,785)	(284,914)	(1,779,699)
Payment to suppliers	(3,044,864)	(205,497)	(3,250,361)
Lease payments	(3,062,884)	-	(3,062,884)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,327,955</u>	<u>(490,411)</u>	<u>837,544</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(516,412)	-	(516,412)
Transfers from other funds	-	510,000	510,000
Contribution to Pottstown Borough Authority	(800,000)	(19,203)	(819,203)
Miscellaneous revenue	200,795	3,559	204,354
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,115,617)</u>	<u>494,356</u>	<u>(621,261)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	5,390	226	5,616
Purchase of investments	(3,657,153)	-	(3,657,153)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,651,763)</u>	<u>226</u>	<u>(3,651,537)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,439,425)	4,171	(3,435,254)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,918,978</u>	<u>168,785</u>	<u>6,087,763</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,479,553</u>	<u>\$ 172,956</u>	<u>\$ 2,652,509</u>

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Fund</u>	<u>Sewer Collection Lines Fund</u>	<u>Total Proprietary Funds</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 1,477,070	\$ (467,443)	\$ 1,009,627
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	49,145	-	49,145
(Increase) decrease in			
Receivables	(158,898)	-	(158,898)
Due from other governments	(40,198)	(19,203)	(59,401)
Prepaid expenses	25,421	4,703	30,124
Increase (decrease) in			
Accounts payable	(36,708)	(1,702)	(38,410)
Accrued liabilities	4,858	17	4,875
Due to other governments	4,437	-	4,437
Compensated absences	2,828	(6,783)	(3,955)
	<u>2,828</u>	<u>(6,783)</u>	<u>(3,955)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 1,327,955</u>	<u>\$ (490,411)</u>	<u>\$ 837,544</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2015**

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	Pension Trust Funds		Agency Fund
	Police Pension	Non-Uniform Pension	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 573,892	\$ 678,074	\$ 9,489
Investments	18,724,458	15,200,626	-
Receivables	-	-	196,128
<b>TOTAL ASSETS</b>	<u>19,298,350</u>	<u>15,878,700</u>	<u>\$ 205,617</u>
<b>LIABILITIES</b>			
Escrow deposits	-	-	\$ 186,546
Due to other funds	-	-	19,071
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>\$ 205,617</u>
<b>NET POSITION</b>			
Held in trust for pension benefits	<u>\$ 19,298,350</u>	<u>\$ 15,878,700</u>	

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

	Pension Trust Funds	
	Police Pension	Non-Uniform Pension
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 199,230	\$ 225,374
Borough contribution	880,611	268,813
<b>TOTAL CONTRIBUTIONS</b>	<u>1,079,841</u>	<u>494,187</u>
Investment earnings		
Net depreciation in fair value of investments	(1,570,301)	(1,175,030)
Dividends	438,452	316,806
Interest income	2,608	-
Investment gain (loss)	291,497	(88,931)
<b>TOTAL INVESTMENT EARNINGS</b>	<u>(837,744)</u>	<u>(947,155)</u>
Investment expense	(82,151)	(10,390)
<b>INVESTMENT EARNINGS, net</b>	<u>(919,895)</u>	<u>(957,545)</u>
<b>TOTAL ADDITIONS</b>	<u>159,946</u>	<u>(463,358)</u>
<b>DEDUCTIONS</b>		
Benefits	1,123,544	880,086
Actuary fees	82,882	106,715
Miscellaneous expenses	4,866	848
<b>TOTAL DEDUCTIONS</b>	<u>1,211,292</u>	<u>987,649</u>
<b>CHANGE IN NET POSITION</b>	<u>(1,051,346)</u>	<u>(1,451,007)</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>20,349,696</u>	<u>17,329,707</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 19,298,350</u>	<u>\$ 15,878,700</u>

*See accompanying notes to the basic financial statements.*

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

---

**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, 2015

---

**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.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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, Liquid Fuels Fund, Library Fund and Parking Lot Fund.

**Debt Service Fund** - The 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.

**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 and Non-uniform Pension Plan.

**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.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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, 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 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; therefore, investments are stated at fair value in all funds. Investments that do not have an established market value are reported at estimated fair value.

**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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**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 changes in plan assumptions, the net difference between projected and actual earnings on pension plan investments, and differences between expected and actual experience of the pension plan.

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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

**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. Non-uniformed employees may carry over a maximum of ten days of vacation, if notification is given to the Borough Manager prior to the employment anniversary date. Otherwise, annual vacation benefits lapse at the subsequent year's employment anniversary date for non-uniformed employees. Uniform 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 \$15 a day for unused sick days up to a maximum of 150 days.

**Long-Term Obligations**

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

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

**Net Position/Fund Balances**

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

- ***Net Investment in Capital Assets*** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

- **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 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.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

**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 \$562,325 at December 31, 2015, represent cash restricted for the acquisition/construction of urban transit capital projects.

**Component Unit - Pottstown Borough Authority**

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

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

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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

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

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

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

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

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

**Cash and Investments Held by Trustee, Restricted** - Restricted cash and investments consist partially of funds of \$12,759,194, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$5,723,772 represents assets established for specific purposes and uses under the Trust Indentures, including debt service, maintenance, capital expenditures and trust administrative expenses.

**Investments** - The Authority follows the provisions of GASB Statement No. 31; therefore, investments are stated at fair value. Investments that do not have an estimated market value are recorded at estimated fair value.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

***Debt Related Costs*** - Debt related costs include bond premiums, bond discounts and deferred amounts on refunding that have been capitalized and amortized to interest expense using the straight-line method over the term of the associated debt. Amortization expense for the year ended December 31, 2015, was \$153,508.

***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.

***Non-Uniform Pension Plan***

Effective, January 1, 2015, the Borough withdrew the Non-Uniform Pension Plan assets from the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system. The assets were placed in a single-employer directed pension plan managed by the Pension/Investment Board representing the non-uniformed employees of the Borough.

***Change of Accounting Principle***

During the year ended December 31, 2015, the Borough adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE B - DEPOSITS AND INVESTMENTS**

**Primary Government**

As of December 31, 2015, the Borough had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities		
		Less Than 1 Year	1 to 5 Years	6 to 10 Years
Corporate bonds	\$ 2,338,704	\$ 202,973	\$ 965,617	\$ 1,170,114
Government bonds	7,549,422	467,852	5,882,405	1,199,165
ETF's and CEF's	13,684,694	13,684,694	-	-
Real Estate Investment Trusts	69,791	69,791	-	-
Hedge funds	2,996,528	2,996,528	-	-
Certificates of deposit	958,172	958,172	-	-
Common stocks	13,419,407	13,419,407	-	-
	<u>\$ 41,016,718</u>	<u>\$ 31,799,417</u>	<u>\$ 6,848,022</u>	<u>\$ 2,369,279</u>

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

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

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

As of December 31, 2015, \$8,121,272 of the Borough's total bank balance of \$8,871,272 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the bank's trust department not held in the Borough's name	\$ 6,575,753
Uninsured	<u>1,545,519</u>
	<u>\$ 8,121,272</u>

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**Component Unit - Pottstown Borough Authority**

As of December 31, 2015, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities		
		Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Government Treasury	\$ 12,759,194	\$ 2,252,746	\$ 8,537,645	\$ 1,968,803
U.S. Government Securities	3,858,341	-	3,858,341	-
Certificates of deposit	874,206	189,731	684,475	-
Guaranteed investment contract	2,667,251	-	-	2,667,251
	<u>\$ 20,158,992</u>	<u>\$ 2,442,477</u>	<u>\$ 13,080,461</u>	<u>\$ 4,636,054</u>

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

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

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

As of December 31, 2015, \$6,424,449 of the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the bank's trust department not held in the Authority's name \$ 6,424,449

**Concentration of Credit Risk** - The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are invested in the following items:

West Deutsche Landesbank, Guaranteed Investment Contract (Sewer Fund)..... 16.3%

The above-listed investment is included in the Sewer Fund's investments and accounts for 16.3% of the total Sewer Fund's investments.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**NOTE C - REAL ESTATE TAXES**

Real estate taxes attach as an enforceable lien on property on May 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 through May 1; face amount, May 2 through July 1; and 10% penalty after July 1. The County bills these taxes which are collected by an independent tax collector. Real estate tax revenues are recognized in the period in which they become susceptible to accrual, that is, when they become both measurable and available. Assessed values of real property are generally 100% of the market value as determined by the Montgomery County Board of Assessment.

The rate of real estate taxation in 2015 was 6.95000 mills for general purposes, .90600 mills for recreation purposes, .40000 mills for debt purposes, .33700 mills for street light purposes, 1.50700 mills for fire services purposes and .21100 mills for library purposes, on a total County assessed valuation of \$810,196,679.

**NOTE D - RECEIVABLES**

Receivables and the related allowance for doubtful accounts as of December 31, 2015, are as follows:

	<u>Gross Outstanding</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
<b>GOVERNMENTAL ACTIVITIES/ GOVERNMENTAL FUNDS</b>			
Accounts receivable	\$ 996,326	\$ 133,255	\$ 863,071
Taxes receivable	421,980	-	421,980
Due from other governments	516,258	-	516,258
<b>BUSINESS-TYPE ACTIVITIES/ PROPRIETARY FUNDS</b>			
Accounts receivable	\$ 1,991,814	\$ 186,909	\$ 1,804,905
Due from other governments	59,401	-	59,401
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>			
Accounts receivable	\$ 1,099,770	\$ 182,639	\$ 917,131
Other receivables	978,360	-	978,360

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE E - CAPITAL ASSETS**

**Primary Government**

A summary of changes in capital assets is as follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 2,648,352	\$ -	\$ -	\$ 2,648,352
Construction in progress	1,746,336	4,792,590	-	6,538,926
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>4,394,688</b>	<b>4,792,590</b>	<b>-</b>	<b>9,187,278</b>
Capital assets being depreciated				
Land improvements	9,003,765	-	-	9,003,765
Buildings and building improvements	8,100,686	-	-	8,100,686
Machinery and equipment	8,869,033	1,615,459	-	10,484,492
Infrastructure	4,880,768	638,637	(891,200)	4,628,205
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>30,854,252</b>	<b>2,254,096</b>	<b>(891,200)</b>	<b>32,217,148</b>
Accumulated depreciation				
Land improvements	(3,920,264)	(401,387)	-	(4,321,651)
Buildings and building improvements	(3,143,972)	(157,283)	-	(3,301,255)
Machinery and equipment	(6,231,529)	(620,668)	-	(6,852,197)
Infrastructure	(1,131,713)	(108,425)	889,695	(350,443)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(14,427,478)</b>	<b>(1,287,763)</b>	<b>889,695</b>	<b>(14,825,546)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>16,426,774</b>	<b>966,333</b>	<b>(1,505)</b>	<b>17,391,602</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 20,821,462</b>	<b>\$ 5,758,923</b>	<b>\$ (1,505)</b>	<b>\$ 26,578,880</b>
<b>BUSINESS- TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated				
Machinery and equipment	482,287	-	-	482,287
Infrastructure	5,752,740	-	-	5,752,740
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>6,235,027</b>	<b>-</b>	<b>-</b>	<b>6,235,027</b>
Accumulated depreciation				
Machinery and equipment	(399,617)	(16,286)	-	(415,903)
Infrastructure	(5,005,447)	(32,859)	-	(5,038,306)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(5,405,064)</b>	<b>(49,145)</b>	<b>-</b>	<b>(5,454,209)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>829,963</b>	<b>(49,145)</b>	<b>-</b>	<b>780,818</b>
<b>BUSINESS- TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<b>\$ 829,963</b>	<b>\$ (49,145)</b>	<b>\$ -</b>	<b>\$ 780,818</b>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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

<b>GOVERNMENTAL ACTIVITIES</b>		
General government		\$ 183,995
Public safety		198,328
Public works		752,748
Culture and recreation		<u>152,692</u>
	<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,287,763</u></b>
 <b>BUSINESS-TYPE ACTIVITIES</b>		
Public works, sewer services		<b>\$ <u>49,145</u></b>

**Component Unit - Pottstown Borough Authority**

A summary of changes in capital assets is as follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<b>SEWER FUND</b>				
Capital assets not being depreciated				
Land	\$ 36,650	\$ -	\$ -	\$ 36,650
Construction in progress	313,322	2,549,592	-	2,862,914
<b>TOTAL CAPITAL ASSETS NOT         BEING DEPRECIATED</b>	<u>349,972</u>	<u>2,549,592</u>	<u>-</u>	<u>2,899,564</u>
Capital assets being depreciated				
Buildings and building improvements	31,547,194	-	-	31,547,194
Machinery and equipment	1,328,297	81,254	-	1,409,551
Infrastructure	6,276,936	79,503	-	6,356,439
<b>TOTAL CAPITAL ASSETS         BEING DEPRECIATED</b>	<u>39,152,427</u>	<u>160,757</u>	<u>-</u>	<u>39,313,184</u>
Accumulated depreciation				
Buildings and building improvements	(12,909,298)	(646,897)	-	(13,556,195)
Machinery and equipment	(788,176)	(52,909)	-	(841,085)
Infrastructure	(2,118,257)	(109,678)	-	(2,227,935)
<b>TOTAL ACCUMULATED         DEPRECIATION</b>	<u>(15,815,731)</u>	<u>(809,484)</u>	<u>-</u>	<u>(16,625,215)</u>
<b>TOTAL CAPITAL ASSETS         BEING DEPRECIATED, net</b>	<u>23,336,696</u>	<u>(648,727)</u>	<u>-</u>	<u>22,687,969</u>
 <b>SEWER FUND CAPITAL ASSETS, net</b>	 <b>\$ <u>23,686,668</u></b>	 <b>\$ <u>1,900,865</u></b>	 <b>\$ <u>-</u></b>	 <b>\$ <u>25,587,533</u></b>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<b>WATER FUND</b>				
Capital assets not being depreciated				
Land	\$ 330,179	\$ -	\$ -	\$ 330,179
Construction in progress	205,020	1,957,616	-	2,162,636
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>535,199</b>	<b>1,957,616</b>	<b>-</b>	<b>2,492,815</b>
Capital assets being depreciated				
Machinery and equipment	1,057,687	136,078	-	1,193,765
Infrastructure	34,104,674	57,900	-	34,162,574
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>35,162,361</b>	<b>193,978</b>	<b>-</b>	<b>35,356,339</b>
Accumulated depreciation				
Machinery and equipment	(670,218)	(90,298)	-	(760,516)
Infrastructure	(10,234,987)	(875,201)	-	(11,110,188)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(10,905,205)</b>	<b>(965,499)</b>	<b>-</b>	<b>(11,870,704)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>24,257,156</b>	<b>(771,521)</b>	<b>-</b>	<b>23,485,635</b>
 <b>WATER FUND CAPITAL ASSETS, net</b>	 <b>\$ 24,792,355</b>	 <b>\$ 1,186,095</b>	 <b>\$ -</b>	 <b>\$ 25,978,450</b>

Depreciation expense was \$809,484 in the Sewer Fund and \$965,499 in the Water Fund for the year ended December 31, 2015.

**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, 2015**

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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, 2015, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits <sup>1</sup>	39 <sup>1</sup>
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>44</u>
	<u>86</u>

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

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

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

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

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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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 \$880,611 to the plan for the year ended December 31, 2015.

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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	65%
International equity	0%
Fixed income	25%
Real estate	0%
Cash	10%
	<u>100%</u>

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

**Rate of Return** - For the year ended December 31, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 4.8%. 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, 2015**

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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, 2015, were as follows:

Total pension liability	\$ 24,442,164
Plan fiduciary net position	<u>(19,298,350)</u>
NET PENSION LIABILITY	<u>\$ 5,143,814</u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u>78.96%</u>

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2015, 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	3.00%

Mortality rates were based on the RP2000 Table. This table does not include projected mortality improvements.

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, 2015 (see the plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50% - 7.50%
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, 2015**

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

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

**Changes in the Net Pension Liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balances at 12/31/2014	\$ 23,600,844	\$ 20,349,696	\$ 3,251,148
Changes for the year:			
Service costs	640,962	-	640,962
Interest costs	1,598,743	-	1,598,743
Changes for experience	549,157	-	549,157
Changes for assumptions	(823,998)	-	(823,998)
Contributions			
Employer	-	880,611	(880,611)
Member	-	199,230	(199,230)
Net investment income	-	(919,895)	919,895
Benefit payments	(1,123,544)	(1,123,544)	-
Administrative expenses	-	(87,748)	87,748
Net changes	<u>841,320</u>	<u>(1,051,346)</u>	<u>1,892,666</u>
Balances at 12/31/2015	<u>\$ 24,442,164</u>	<u>\$ 19,298,350</u>	<u>\$ 5,143,814</u>

**Changes in Assumptions** - In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP2000 Mortality Tables. In prior years, those assumptions were based on the UP1984 Mortality Tables.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Borough, calculated using the discount rate of 7.0%, as well as what the Borough's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Borough's net pension liability	\$ <u>8,072,213</u>	\$ <u>5,143,814</u>	\$ <u>2,442,435</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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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, 2015, the Borough recognized pension expense of \$1,065,644. At December 31, 2015, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 480,512	\$ -
Changes in assumptions	-	720,998
Differences between projected and actual investment earnings	<u>1,948,119</u>	<u>-</u>
	<u>\$ 2,428,631</u>	<u>\$ 720,998</u>

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

<u>Year Ending December 31,</u>	
2016	\$ 452,675
2017	452,675
2018	452,675
2019	452,675
2020	(34,355)
Thereafter	(68,712)

**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, 2015, two members have elected to participate in the DROP. The total DROP account balance is approximately \$131,452.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM PENSION TRUST FUND)**

**Plan Description** - The Pottstown Borough Non-Uniform Pension Plan is a single-employer 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.

The Borough of Pottstown Non-Uniform Pension Plan issues separate financial statements which are available at the Borough of Pottstown office.

At January 1, 2015, the date of the latest actuarial valuation, the Borough of Pottstown Non-Uniform Pension Plan membership consisted of the following:

Active employee	76
Retirees and beneficiaries currently receiving benefits	<u>51</u>
	<u><u>127</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.

Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the plan and funded through investment earnings.

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) AAL (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) AAL as a Percentage of Payroll (c)/(e)
2011	\$ 16,224,147	\$ 16,392,119	\$ 167,972	98.98%	\$ 4,379,676	3.84%
2013	17,760,277	18,032,218	271,941	98.49%	3,994,566	6.81%
2015	17,300,293	18,338,522	1,038,229	94.34%	4,154,797	24.99%

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE G - DEFINED BENEFIT PENSION PLAN (NON-UNIFORM PENSION TRUST FUND)**  
**(Continued)**

**Annual Pension Cost** - For 2015, the Borough's annual pension cost of \$268,813 was equal to the Borough's required and actual contribution. The required contribution was determined as part of the January 1, 2015 actuarial valuation using the entry age normal cost method. The significant actuarial assumptions include (1) a 6.5% investment rate of return and (2) projected salary increases of 4.0%. The plan assets were valued at fair value with a remaining amortization period of ten years using the level dollar closed amortization method.

<u>Year Ended December 31,</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>
2013	\$ 208,333	100%
2014	186,497	100%
2015	268,813	100%

**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.

**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 2015, the Borough contributed \$443,002 to the plan for current premiums, using the implicit rate subsidy.

**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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

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	\$ 1,137,464
Amortization of unfunded actuarial accrued liability	874,763
Adjustment for timing	90,550
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>2,102,777</u>
Interest on net OPEB obligation	631,114
Adjustment to ARC	<u>(523,262)</u>
ANNUAL OPEB EXPENSE	2,210,629
Net OPEB contributions during the year	(443,002)
Net OPEB obligation at beginning of year	<u>14,024,745</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 15,792,372</u></u>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 2,372,483	16%	\$ 12,597,506
2014	1,833,663	22%	14,024,745
2015	2,210,629	20%	15,792,372

**Funded Status and Funding Progress**

As of January 1, 2015, the most recent interim actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$24,500,969 and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,500,969. The covered payroll (annual payroll of active employees covered by the plan) was \$5,512,980, and the ratio of the UAAL to the covered payroll was 444.4%.

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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**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, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% 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 8.5% initially, reduced by .5% per year to an ultimate rate of 5.0% in 2023 and later years.

The actuarial valuation assumes 100% participant election and 100% of retiring member's spouses will elect coverage under the plan. The UML is being amortized using the level percent method over a period of 30 years on an open group basis.

**NOTE I - LONG-TERM LIABILITIES**

**Primary Government**

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

	Balance Outstanding January 1, 2015	Additions	Deletions	Balance Outstanding December 31, 2015	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Note, Series of 2012	\$ 795,283	\$ 2,167,017	\$ (185,000)	\$ 2,777,300	\$ 191,000
Other liabilities					
Capital leases	405,602	725,007	(81,672)	1,048,937	144,161
Net OPEB obligation	14,024,745	2,210,629	(443,002)	15,792,372	-
Compensated absences	365,730	52,572	-	418,302	-
Pension liability	3,251,148	1,892,666	-	5,143,814	-
<b>TOTAL OTHER LIABILITIES</b>	<u>18,047,225</u>	<u>4,880,874</u>	<u>(524,674)</u>	<u>22,403,425</u>	<u>144,161</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES</b>	<u>\$ 18,842,508</u>	<u>\$ 7,047,891</u>	<u>\$ (709,674)</u>	<u>\$ 25,180,725</u>	<u>\$ 335,161</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Compensated absences	<u>\$ 65,261</u>	<u>\$ -</u>	<u>\$ (3,955)</u>	<u>\$ 61,306</u>	<u>\$ -</u>

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

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

Debt service requirements to maturity on these obligations, excluding compensated absences and capital leases, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 191,000	\$ 91,300	\$ 282,300
2017	197,000	86,525	283,525
2018	202,000	81,600	283,600
2019	208,000	76,550	284,550
2020	215,000	71,350	286,350
2021 to 2025	1,078,000	402,200	1,480,200
2026 to 2028	686,300	168,768	855,068
	<u>\$ 2,777,300</u>	<u>\$ 978,293</u>	<u>\$ 3,755,593</u>

Pertinent information regarding long-term debt obligations outstanding is presented below:

<u>Year</u>	<u>Amount of Original Issue</u>	<u>Purpose</u>	<u>Balance Outstanding December 31, 2015</u>
2012	\$ 4,360,000	General Obligation Note, Series of 2012, principal and interest payments due on December 1 of each year through December 1, 2031, with interest ranging from 2.50% to 5.25%; for the refunding of the General Obligation Bonds, Series of 1999, the acquisition and construction of a new Borough garage, other capital projects and payment of issuance costs	<u>\$ 2,777,300</u>

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

**Component Unit - Pottstown Borough Authority**

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

	Balance Outstanding January 1, 2015	Additions	Deletions	Balance Outstanding December 31, 2015	Due Within One Year
<b>SEWER FUND</b>					
Bond premium	\$ 263,825	\$ -	\$ (35,992)	\$ 227,833	\$ -
Bonds payable					
Guaranteed Sewer Bonds, Series of 1991	12,312,504	838,700 (1)	(2,260,000)	10,891,204	2,152,456
Guaranteed Sewer Revenue Bonds					
Series of 2006	14,010,000	-	(2,040,000)	11,970,000	1,965,000
Series of 2012	3,780,000	-	(305,000)	3,475,000	310,000
	<u>3,780,000</u>	<u>-</u>	<u>(305,000)</u>	<u>3,475,000</u>	<u>310,000</u>
<b>TOTAL SEWER FUND LONG-TERM LIABILITIES</b>	<b>\$ <u>30,366,329</u></b>	<b>\$ <u>838,700</u></b>	<b>\$ <u>(4,640,992)</u></b>	<b>\$ <u>26,564,037</u></b>	<b>\$ <u>4,427,456</u></b>
<b>WATER FUND</b>					
Bond premium	\$ 36,767	\$ -	\$ (10,566)	\$ 26,201	\$ -
Bonds payable					
Guaranteed Water Revenue Bonds					
Series of 2007	3,119,135	-	(180,367)	2,938,768	188,704
Series A of 2009	1,140,000	-	(1,140,000)	-	-
Series AA of 2009	5,105,000	-	(35,000)	5,070,000	1,205,000
Series of 2012	5,280,000	-	(70,000)	5,210,000	70,000
Compensated absences	40,846	-	(702)	40,144	-
	<u>40,846</u>	<u>-</u>	<u>(702)</u>	<u>40,144</u>	<u>-</u>
<b>TOTAL WATER FUND LONG-TERM LIABILITIES</b>	<b>\$ <u>14,721,748</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>(1,436,635)</u></b>	<b>\$ <u>13,285,113</u></b>	<b>\$ <u>1,463,704</u></b>

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

**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 \$13,565,000 as of December 31, 2015. The funds have been deposited in an irrevocable trust to provide stated debt service payments on the 1989 Guaranteed Sewer Bonds.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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, 2015, the value of the escrow account included in cash and investments held by the trustee was \$12,759,194. 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>
\$ 2,152,456	\$ 2,152,456	2016	7.00%
2,001,543	2,001,543	2017	7.00%
1,869,930	1,869,930	2018	7.05%
1,739,167	1,739,167	2019	7.05%
1,617,402	1,617,402	2020	7.05%
<u>1,510,706</u>	<u>1,510,706</u>	2021	7.05%
<u>\$ 10,891,204</u>	<u>\$ 10,891,204</u>		

Bonds outstanding at gross maturity value are as follows:

TOTAL GROSS MATURITY VALUE OUTSTANDING AT DECEMBER 31, 2015	\$ 13,565,000
Discount	<u>(2,673,796)</u>
TOTAL ACCRETED VALUE AT DECEMBER 31, 2015	<u>\$ 10,891,204</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**Guaranteed Sewer Revenue Bonds, Series of 2006**

On November 15, 2006, the Authority issued \$21,660,000 in Guaranteed Sewer Revenue Bonds, Series of 2006, with interest rates ranging from 4.00% to 5.00% and maturity of the bonds through November 2021. The bonds are secured by a Trust Indenture issued by the Authority and the Borough to the trustee. The bonds are payable from the revenue derived from the Sixth Supplemental Lease dated November 15, 2006, originally dated May 1, 1989, between the Authority (lessor) and the Borough (lessee). The proceeds from the bond issuance were used to currently refund the Authority's Guaranteed Revenue Bonds, Series of 1996, provide funds for a termination payment related to the swaption entered into in 2005 and pay the costs of issuing and insuring 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>
\$ 1,965,000	\$ 512,106	2016	4.000% to 5.000%
1,835,000	421,256	2017	5.000%
1,930,000	329,506	2018	4.000%
2,000,000	252,306	2019	4.000%
2,075,000	172,306	2020	4.000%
<u>2,165,000</u>	<u>89,306</u>	2021	4.125%
<u>\$ 11,970,000</u>	<u>\$ 1,776,786</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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 188,704	\$ 132,170	2016	4.57%
197,427	123,448	2017	4.57%
206,552	114,322	2018	4.57%
216,100	104,775	2019	4.57%
226,088	94,786	2020	4.57%
1,297,198	307,176	2021 to 2025	4.57%
<u>606,699</u>	<u>35,049</u>	2026 to 2027	4.57%
<u>\$ 2,938,768</u>	<u>\$ 911,726</u>		

**Water Revenue Bonds of 2009, Series A**

In 2009, the Authority issued Water Revenue Bonds of 2009, Series A, dated October 13, 2009, in the amount of \$6,270,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Sixth Supplemental Indenture dated November 18, 2009. 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 fully matured in December 2015.

The bonds were issued to currently refund \$6,020,000 of the Authority's outstanding Water Revenue Bonds, Series of 2003, and pay the costs in connection with the issuance of the Series A Bonds. 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 \$185,102 and a reduction of \$182,237 in future debt service payments.

The bonds were repaid in full during 2015.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

**Water Revenue Bonds of 2009, Series AA**

In 2009, the Authority issued Water Revenue Bonds of 2009, Series AA, dated October 13, 2009, in the amount of \$10,010,000. The bonds are secured by a Trust Indenture issued by the Authority to the trustee under the Sixth Supplemental Indenture dated November 18, 2009. 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 2.50% to 4.00% over the life of the bonds. The bonds will fully mature in December 2023.

The bonds were issued to undertake various capital projects related to the Authority's water system, currently refund \$5,585,000 of the Authority's outstanding Water Revenue Bonds, Series of 2004, and pay the costs in connection with the issuance of the Series AA Bonds as a result of the current refunding. The reacquisition price exceeded the net carrying amount of the old debt by \$239,478. 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 \$166,224 and a reduction of \$165,635 in future debt service payments.

In 2012, the bonds were partially advance refunded by the Water Revenue Bonds of 2012 (see below). The remaining portion of the bonds outstanding will fully mature in December 2019.

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>
\$ 1,205,000	\$ 184,325	2016	3.25%
1,245,000	145,163	2017	3.50%
1,285,000	101,588	2018	3.75%
<u>1,335,000</u>	<u>53,400</u>	2019	4.00%
<u>\$ 5,070,000</u>	<u>\$ 484,476</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, 2015**

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

The bonds bear an interest rate ranging from 2.00% to 3.25% over the life of the bonds. The bonds will fully mature in November 2025.

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 310,000	\$ 97,100	2016	2.00%
315,000	90,900	2017	2.25%
320,000	83,813	2018	2.50%
330,000	75,813	2019	2.50%
340,000	67,563	2020	2.75%
<u>1,860,000</u>	<u>181,027</u>	2021 to 2025	3.00% to 3.25%
<u>\$ 3,475,000</u>	<u>\$ 596,216</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, 2015**

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

The outstanding bonds are summarized as follows:

<u>Total Bonds Outstanding</u>	<u>Annual Interest</u>	<u>Maturing November 1,</u>	<u>Interest Rate</u>
\$ 70,000	\$ 117,860	2016	2.00%
70,000	116,460	2017	2.00%
75,000	115,060	2018	2.00%
75,000	113,560	2019	2.00%
1,470,000	112,060	2020	2.05%
<u>3,450,000</u>	<u>140,443</u>	2021 to 2023	2.25% to 2.55%
<u>\$ 5,210,000</u>	<u>\$ 715,443</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 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>(1,041,256)</u>
	<u>\$ 889,547</u>

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**NOTE J - CAPITAL LEASE (Continued)**

Future minimum lease payments together with the present value of the net minimum lease payments are as follows:

Year Ending December 31,	
2016	\$ 181,033
2017	150,442
2018	150,441
2019	150,540
2020	104,831
2021 to 2025	<u>471,738</u>
	1,209,025
Amount representing interest	<u>(160,088)</u>
<b>TOTAL PRESENT VALUE OF MINIMUM LEASE PAYMENT</b>	<b><u>\$ 1,048,937</u></b>

**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.

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**NOTE L - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables balances consist of the following at December 31, 2015:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>GOVERNMENTAL FUNDS</b>		
General Fund	\$ 1,751,449	\$ -
Urban Transit Fund	-	18,430
Borough Grant Fund	-	337,081
Capital Operating Fund	-	1,275,993
Other Governmental Funds	-	119,304
AGENCY FUND	-	19,071
	<u>\$ 1,751,449</u>	<u>\$ 1,769,879</u>

The difference of \$18,430 resulted from the Urban Transit Fund reporting as of June 30, 2015. The internal balances item on the statement of net position has a balance of \$18,430 for this same reason.

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 In</u>	<u>Transfers Out</u>
<b>GOVERNMENTAL FUNDS</b>		
General Fund	\$ 50,000	\$ 1,650,000
Borough Grant Fund	150,000	-
Capital Operating Fund	1,581,412	50,000
Other Governmental Funds	-	75,000
TOTAL GOVERNMENTAL FUNDS	<u>1,781,412</u>	<u>1,775,000</u>
<b>PROPRIETARY FUNDS</b>		
Sewer Fund	-	516,412
Sewer Collection Lines Fund	510,000	-
TOTAL PROPRIETARY FUNDS	<u>510,000</u>	<u>516,412</u>
TOTAL TRANSFERS	<u>\$ 2,291,412</u>	<u>\$ 2,291,412</u>

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE M - RISK MANAGEMENT**

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

**NOTE N - MANAGEMENT AGREEMENT**

Effective November 15, 1990, and as amended with the First Supplemental Management Agreement dated July 15, 1998, and the Second Supplemental Management Agreement dated August 19, 2007, the Borough entered into a management agreement with the Authority to manage the day-to-day operations of the water system to include repair, maintenance and administration. The management agreement expires in 2015. 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, 2015, was \$395,552.

**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, and the Seventh Supplemental Agreement dated April 15, 2012.

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

**BOROUGH OF POTTSTOWN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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

<u>Year Ending December 31,</u>	
2016	\$ 2,884,206
2017	2,662,156
2018	2,663,319
2019	2,658,119
2020	2,654,869
2021 to 2025	<u>4,295,330</u>
	<u>\$ 17,817,999</u>

Payments made by the Borough to the Authority in 2015 were \$3,062,306.

**NOTE P - GUARANTEES**

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

	<u>Year of Issue</u>	<u>Outstanding at December 31, 2015</u>
Guaranteed Sewer Revenue Bonds	1991	\$ 10,891,204
Guaranteed Sewer Revenue Bonds	2006	11,970,000
Guaranteed Sewer Revenue Bonds	2012	3,475,000
Guaranteed Water Revenue Bonds	2007	2,938,768
Guaranteed Water Revenue Bonds	2009AA	5,070,000
Guaranteed Water Revenue Bonds	2012	5,210,000

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

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE Q - INTERGOVERNMENTAL SEWER CHARGES**

The Borough has agreements with Lower Pottsgrove, West Pottsgrove and Upper Pottsgrove Townships to treat sewage flows emanating from these townships. Annual sewer system costs are allocated to each township based on each party's share of the metered flows. Intergovernmental sewer charges for the year ended December 31, 2015, which represent 9.45% of the total sewer operating revenues, were as follows:

Lower Pottsgrove Township	\$ 472,068
Upper Pottsgrove Township	146,501
West Pottsgrove Township	<u>244,317</u>
	<u>\$ 862,886</u>

**NOTE R - LEGAL COMPLIANCE**

For the year ended December 31, 2015, the Borough Grant Fund had a deficit fund balance of \$96,663 and the Borough Capital Operating Fund had a deficit fund balance of \$570,115.

**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 2015 was \$362,038.

**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, 2015, the purchased equipment has not yet been received by the Borough and, therefore, neither the asset nor the related liability are reflected in these financial statements.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE U - PRIOR PERIOD ADJUSTMENT**

The Borough implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, effective January 1, 2015.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments must record the unfunded liability of their pension plans.

For the government-wide financial statements, the Borough has treated the beginning of year net pension liability of \$3,251,148 as having been recognized in the period incurred. The Borough has adjusted beginning net position for the governmental activities from \$15,602,573 to \$12,351,425.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 8,247,972	\$ 8,179,840	\$ 8,718,989	\$ 539,149
Intergovernmental	828,004	832,004	914,084	82,080
Charges for services	1,731,492	1,744,492	1,589,596	(154,896)
Fees, licenses and permits	469,050	469,050	477,913	8,863
Court costs and fines	160,201	160,201	202,936	42,735
Interest and rents	10,010	15,010	24,123	9,113
Miscellaneous	1,956,030	1,813,030	76,531	(1,736,499)
<b>TOTAL REVENUES</b>	<b>13,402,759</b>	<b>13,213,627</b>	<b>12,004,172</b>	<b>(1,209,455)</b>
<b>EXPENDITURES</b>				
General government	2,862,788	2,968,592	3,040,224	(71,632)
Public safety, police department	7,145,435	6,857,310	7,013,264	(155,954)
Public works				
Zoning	728,768	728,768	623,968	104,800
Highways	1,004,764	1,004,764	253,339	751,425
Other public works	6,580	6,580	3,452	3,128
Culture and recreation, recreation	10,525	10,525	10,525	-
Conservation and development	124,000	187,190	198,495	(11,305)
<b>TOTAL EXPENDITURES</b>	<b>11,882,860</b>	<b>11,763,729</b>	<b>11,143,267</b>	<b>620,462</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,519,899</b>	<b>1,449,898</b>	<b>860,905</b>	<b>(588,993)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	100	100	-	(100)
Transfers in	1	50,002	50,000	(2)
Transfers out	(1,520,000)	(1,500,000)	(1,650,000)	(150,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,519,899)</b>	<b>(1,449,898)</b>	<b>(1,600,000)</b>	<b>(150,102)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(739,095)</b>	<b>(739,095)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>4,175,004</b>	<b>4,175,004</b>	<b>4,175,004</b>	<b>-</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 4,175,004</b>	<b>\$ 4,175,004</b>	<b>\$ 3,435,909</b>	<b>\$ (739,095)</b>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**URBAN TRANSIT FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,766,685	\$ 1,766,685	\$ 1,765,600	\$ (1,085)
Charges for services	307,000	307,000	332,188	25,188
Interest and rents	-	-	1,304	1,304
	<u>2,073,685</u>	<u>2,073,685</u>	<u>2,099,092</u>	<u>25,407</u>
TOTAL REVENUES	2,073,685	2,073,685	2,099,092	25,407
EXPENDITURES				
Public works, other public works	<u>2,073,685</u>	<u>2,073,685</u>	<u>2,099,323</u>	<u>(25,638)</u>
NET CHANGE IN FUND BALANCE	-	-	(231)	(231)
FUND BALANCE AT BEGINNING OF YEAR	<u>1,192,487</u>	<u>1,192,487</u>	<u>1,192,487</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,192,487</u>	<u>\$ 1,192,487</u>	<u>\$ 1,192,256</u>	<u>\$ (231)</u>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**REFUSE FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 60,000	\$ 60,000	\$ -	\$ (60,000)
Charges for services	2,797,775	2,841,495	2,551,811	(289,684)
Interest and rents	3,000	3,000	1,875	(1,125)
Miscellaneous	8,004	13,504	9,650	(3,854)
TOTAL REVENUES	2,868,779	2,917,999	2,563,336	(354,663)
EXPENDITURES				
Public works, sanitation	2,890,242	2,933,700	2,558,640	375,060
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,463)	(15,701)	4,696	20,397
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	1	1	-	(1)
Transfers out	-	-	-	-
Transfer to budgetary reserve	21,462	-	-	-
TOTAL OTHER FINANCING SOURCES	21,463	1	-	(1)
NET CHANGE IN FUND BALANCE	-	(15,700)	4,696	20,396
FUND BALANCE AT BEGINNING OF YEAR	2,891,143	2,891,143	2,891,143	-
FUND BALANCE AT END OF YEAR	\$ 2,891,143	\$ 2,875,443	\$ 2,895,839	\$ 20,396

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**BOROUGH GRANT FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 4,067,600	\$ 3,330,100	\$ 752,491	\$ (2,577,609)
Interest and rents	1	401	-	(401)
<b>TOTAL REVENUES</b>	<b>4,067,601</b>	<b>3,330,501</b>	<b>752,491</b>	<b>(2,578,010)</b>
<b>EXPENDITURES</b>				
Public works, highways	175,000	175,000	151,571	23,429
Culture and recreation, recreation	-	900,000	370,181	529,819
Conservation and development	3,715,600	2,065,100	307,333	1,757,767
<b>TOTAL EXPENDITURES</b>	<b>3,890,600</b>	<b>3,140,100</b>	<b>829,085</b>	<b>2,311,015</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>177,001</b>	<b>190,401</b>	<b>(76,594)</b>	<b>(266,995)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	150,000	150,000	-
Transfer to budgetary reserve	(177,001)	(340,401)	-	340,401
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(177,001)</b>	<b>(190,401)</b>	<b>150,000</b>	<b>340,401</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>73,406</b>	<b>73,406</b>
<b>FUND DEFICIT AT BEGINNING OF YEAR</b>	<b>(170,069)</b>	<b>(170,069)</b>	<b>(170,069)</b>	<b>-</b>
<b>FUND DEFICIT AT END OF YEAR</b>	<b>\$ (170,069)</b>	<b>\$ (170,069)</b>	<b>\$ (96,663)</b>	<b>\$ 73,406</b>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL OPERATING FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous	\$ 5,000	\$ 5,000	\$ 4,475	\$ (525)
Interest and rents	400	400	644	244
<b>TOTAL REVENUES</b>	<b>5,400</b>	<b>5,400</b>	<b>5,119</b>	<b>(281)</b>
<b>EXPENDITURES</b>				
Public works, highways	-	-	68,684	(68,684)
Public works, other public works	170,200	170,200	57,015	113,185
Capital projects	2,841,072	2,844,072	4,720,182	(1,876,110)
<b>TOTAL EXPENDITURES</b>	<b>3,011,272</b>	<b>3,014,272</b>	<b>4,845,881</b>	<b>(1,831,609)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(3,005,872)</b>	<b>(3,008,872)</b>	<b>(4,840,762)</b>	<b>(1,831,890)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt issuance	2,400,000	2,400,000	2,167,017	(232,983)
Transfers in	1,575,000	1,575,000	1,581,412	6,412
Transfers out	-	(50,000)	(50,000)	-
Transfer to budgetary reserve	(969,128)	(916,128)	203,652	1,119,780
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>3,005,872</b>	<b>3,008,872</b>	<b>3,902,081</b>	<b>893,209</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(938,681)</b>	<b>(938,681)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>368,566</b>	<b>368,566</b>	<b>368,566</b>	<b>-</b>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<b>\$ 368,566</b>	<b>\$ 368,566</b>	<b>\$ (570,115)</b>	<b>\$ (938,681)</b>

See accompanying notes to the budgetary comparison schedules.

**BOROUGH OF POTTSTOWN**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
YEAR ENDED DECEMBER 31, 2015

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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, 2015**

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

For the year ended December 31, 2015, expenditures exceeded appropriations in the following:

	<u>General Fund</u>	<u>Urban Transit Fund</u>	<u>Capital Operating Fund</u>
General government	\$ 71,632	\$ -	\$ -
Public safety			
Police department	155,954	-	-
Highways	-	-	68,684
Public works, other public works	-	25,638	-
Conservation and development	11,305	-	-
Capital projects	-	-	1,876,110
	<u>\$ 238,891</u>	<u>\$ 25,638</u>	<u>\$ 1,944,794</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**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 640,962	\$ 429,517
Interest	1,598,743	1,468,395
Changes for experience	549,157	-
Changes for assumptions	(823,998)	-
Benefit payments	<u>(1,123,544)</u>	<u>(916,485)</u>
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>	841,320	981,427
Total pension liability, beginning	<u>23,600,844</u>	<u>22,619,417</u>
<b>TOTAL PENSION LIABILITY, ENDING (a)</b>	<u><u>\$ 24,442,164</u></u>	<u><u>\$ 23,600,844</u></u>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions		
Employer	\$ 880,611	\$ 865,432
Member	199,230	190,437
Net investment income (loss)	(919,895)	900,202
Benefit payments, including refunds of member contributions	(1,123,544)	(916,485)
Administrative expenses	<u>(87,748)</u>	<u>-</u>
<b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>	(1,051,346)	1,039,586
Plan fiduciary net position, beginning	<u>20,349,696</u>	<u>19,310,110</u>
<b>PLAN FIDUCIARY NET POSITION, ENDING (b)</b>	<u><u>\$ 19,298,350</u></u>	<u><u>\$ 20,349,696</u></u>
<b>NET PENSION LIABILITY, ENDING (a)-(b)</b>	<u><u>\$ 5,143,814</u></u>	<u><u>\$ 3,251,148</u></u>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	<u>78.96%</u>	<u>86.22%</u>
<b>COVERED-EMPLOYEE PAYROLL</b>	<u><u>\$ 3,726,783</u></u>	<u><u>\$ 3,784,157</u></u>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>	<u>138.02%</u>	<u>85.91%</u>

**NOTES TO SCHEDULE**

*Changes of assumptions:* In 2015, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP2000 Mortality Tables.

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF POLICE PENSION PLAN CONTRIBUTIONS**  
**YEAR ENDED DECEMBER 31, 2015**

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	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 880,611	\$ 865,432
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>(880,611)</u>	<u>(865,432)</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 3,726,783</u>	<u>\$ 3,784,157</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>23.63%</u>	<u>22.87%</u>

**NOTES TO SCHEDULE**

Valuation date: 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
Amortization method	Level dollar, closed
Remaining amortization period	13 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.00%
Salary increases	3.50%
Investment rate of return	2.65%
Retirement age	Members are assumed to retire at age 50 and completion of 25 years of service, or if earlier, age 60 and completion of 25 years of service.

Mortality In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP2000 Mortality Tables. In prior years, those assumptions were based on the UP1984 Table.

**BOROUGH OF POTTSTOWN**  
SCHEDULE OF POLICE PENSION PLAN  
INVESTMENT RETURNS  
YEAR ENDED DECEMBER 31, 2015

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	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>4.80%</u>	<u>5.90%</u>

**BOROUGH OF POTTSTOWN**  
**POSTEMPLOYMENT BENEFITS OTHER THAN**  
**PENSION FUNDING PROGRESS**  
**YEAR ENDED DECEMBER 31, 2015**

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**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded (Assets in Excess of) AAL (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) Unfunded (Assets in Excess of) AAL as a Percentage of Payroll (c)/(e)
2013	\$ -	\$ 25,314,185	\$ 25,314,185	0.0%	\$ 5,280,148	479.4%
2014	-	19,432,286	19,432,286	0.0%	5,300,942	366.6%
2015	-	24,500,969	24,500,969	0.0%	5,512,980	444.4%

## **SUPPLEMENTARY INFORMATION SECTION**

**BOROUGH OF POTTSTOWN**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	Nonmajor Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,517,262	\$ 412,926	\$ 1,930,188
Receivables			
Accounts	1,790	-	1,790
Taxes	101,769	13,748	115,517
Prepaid expenditures	<u>61,048</u>	<u>-</u>	<u>61,048</u>
TOTAL ASSETS	<u>\$ 1,681,869</u>	<u>\$ 426,674</u>	<u>\$ 2,108,543</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 56,795	\$ 127	\$ 56,922
Accrued liabilities	6,402	-	6,402
Due to other funds	-	119,304	119,304
Unearned revenue	<u>11,426</u>	<u>-</u>	<u>11,426</u>
TOTAL LIABILITIES	<u>74,623</u>	<u>119,431</u>	<u>194,054</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	<u>95,051</u>	<u>12,840</u>	<u>107,891</u>
<b>FUND BALANCES</b>			
Nonspendable, prepaid expenditures	61,048	-	61,048
Restricted for			
Airport improvement	83,769	-	83,769
Grants	85,100	-	85,100
Liquid fuels	327,313	-	327,313
Parking lot program purposes	110,917	-	110,917
Street lighting	76,643	-	76,643
Fire services	754,025	-	754,025
Library	13,380	-	13,380
Debt service	-	294,403	294,403
TOTAL FUND BALANCES	<u>1,512,195</u>	<u>294,403</u>	<u>1,806,598</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,681,869</u>	<u>\$ 426,674</u>	<u>\$ 2,108,543</u>

**BOROUGH OF POTTSTOWN****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2015**

	Nonmajor Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 2,420,781	\$ 335,872	\$ 2,756,653
Intergovernmental	768,391	-	768,391
Charges for services	421,321	-	421,321
Interest and rents	14,297	299	14,596
Miscellaneous	7,448	-	7,448
	<u>3,632,238</u>	<u>336,171</u>	<u>3,968,409</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
General government	-	11,159	11,159
Public safety, fire department	1,399,892	-	1,399,892
Public works			
Highways	804,058	-	804,058
Other public works	107,985	-	107,985
Culture and recreation			
Recreation	1,012,041	-	1,012,041
Library	179,184	-	179,184
Debt service			
Principal	-	266,672	266,672
Interest	-	59,947	59,947
	<u>3,503,160</u>	<u>337,778</u>	<u>3,840,938</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	<u>129,078</u>	<u>(1,607)</u>	<u>127,471</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(75,000)	-	(75,000)
Contribution from Pottstown Borough Authority	-	200,000	200,000
	<u>(75,000)</u>	<u>200,000</u>	<u>125,000</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
<b>NET CHANGE IN FUND BALANCES</b>			
	54,078	198,393	252,471
<b>FUND BALANCES AT BEGINNING OF YEAR</b>			
	<u>1,458,117</u>	<u>96,010</u>	<u>1,554,127</u>
<b>FUND BALANCES AT END OF YEAR</b>			
	<u>\$ 1,512,195</u>	<u>\$ 294,403</u>	<u>\$ 1,806,598</u>

**BOROUGH OF POTTSTOWN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2015**

	<u>Airport Fund</u>	<u>Street Lighting Fund</u>	<u>Recreation Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 106,823	\$ 96,344	\$ 102,244
Receivables			
Accounts	-	-	-
Taxes	-	11,583	31,139
Prepaid expenditures	<u>13,199</u>	<u>-</u>	<u>16,633</u>
TOTAL ASSETS	<u>\$ 120,022</u>	<u>\$ 107,927</u>	<u>\$ 150,016</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 15,033	\$ 20,466	\$ 14,262
Accrued liabilities	-	-	4,937
Unearned revenue	<u>8,021</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>23,054</u>	<u>20,466</u>	<u>19,199</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	<u>-</u>	<u>10,818</u>	<u>29,084</u>
<b>FUND BALANCES</b>			
Nonspendable, prepaid expenditures	13,199	-	16,633
Restricted for			
Airport improvement	83,769	-	-
Grants	-	-	85,100
Liquid fuels	-	-	-
Parking lot program purposes	-	-	-
Street lighting	-	76,643	-
Fire services	-	-	-
Library	-	-	-
TOTAL FUND BALANCES	<u>96,968</u>	<u>76,643</u>	<u>101,733</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 120,022</u>	<u>\$ 107,927</u>	<u>\$ 150,016</u>

<u>Fire Services Fund</u>	<u>Liquid Fuels Fund</u>	<u>Library Fund</u>	<u>Parking Lot Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 754,376	\$ 327,313	\$ 13,238	\$ 116,924	\$ 1,517,262
1,790	-	-	-	1,790
51,795	-	7,252	-	101,769
<u>16,235</u>	<u>-</u>	<u>14,981</u>	<u>-</u>	<u>61,048</u>
<u>\$ 824,196</u>	<u>\$ 327,313</u>	<u>\$ 35,471</u>	<u>\$ 116,924</u>	<u>\$ 1,681,869</u>
\$ 4,859	\$ -	\$ 337	\$ 1,838	\$ 56,795
701	-	-	764	6,402
-	-	-	3,405	11,426
<u>5,560</u>	<u>-</u>	<u>337</u>	<u>6,007</u>	<u>74,623</u>
<u>48,376</u>	<u>-</u>	<u>6,773</u>	<u>-</u>	<u>95,051</u>
16,235	-	14,981	-	61,048
-	-	-	-	83,769
-	-	-	-	85,100
-	327,313	-	-	327,313
-	-	-	110,917	110,917
-	-	-	-	76,643
754,025	-	-	-	754,025
-	-	13,380	-	13,380
<u>770,260</u>	<u>327,313</u>	<u>28,361</u>	<u>110,917</u>	<u>1,512,195</u>
<u>\$ 824,196</u>	<u>\$ 327,313</u>	<u>\$ 35,471</u>	<u>\$ 116,924</u>	<u>\$ 1,681,869</u>

# BOROUGH OF POTTSTOWN

## COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS YEAR ENDED DECEMBER 31, 2015

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	Airport Fund	Street Lighting Fund	Recreation Fund
REVENUES			
Taxes	\$ -	\$ 278,195	\$ 742,169
Intergovernmental	-	-	153,659
Charges for services	121,762	-	162,483
Interest and rents	101	100	12,594
Miscellaneous	866	-	4,305
	<u>122,729</u>	<u>278,295</u>	<u>1,075,210</u>
TOTAL REVENUES			
EXPENDITURES			
Public safety, fire department	-	-	-
Public works			
Highways	-	244,937	-
Other public works	107,985	-	-
Culture and recreation			
Recreation	-	-	1,012,041
Library	-	-	-
	<u>107,985</u>	<u>244,937</u>	<u>1,012,041</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,744	33,358	63,169
OTHER FINANCING USES			
Transfers out	-	-	(75,000)
NET CHANGE IN FUND BALANCES	14,744	33,358	(11,831)
FUND BALANCES AT BEGINNING OF YEAR	<u>82,224</u>	<u>43,285</u>	<u>113,564</u>
FUND BALANCES AT END OF YEAR	<u>\$ 96,968</u>	<u>\$ 76,643</u>	<u>\$ 101,733</u>

<u>Fire Services Fund</u>	<u>Liquid Fuels Fund</u>	<u>Library Fund</u>	<u>Parking Lot Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 1,231,496	\$ -	\$ 168,921	\$ -	\$ 2,420,781
121,788	492,944	-	-	768,391
91,790	-	-	45,286	421,321
887	442	34	139	14,297
410	-	1,867	-	7,448
<u>1,446,371</u>	<u>493,386</u>	<u>170,822</u>	<u>45,425</u>	<u>3,632,238</u>
1,399,892	-	-	-	1,399,892
-	493,303	-	65,818	804,058
-	-	-	-	107,985
-	-	-	-	1,012,041
-	-	179,184	-	179,184
<u>1,399,892</u>	<u>493,303</u>	<u>179,184</u>	<u>65,818</u>	<u>3,503,160</u>
46,479	83	(8,362)	(20,393)	129,078
-	-	-	-	(75,000)
46,479	83	(8,362)	(20,393)	54,078
<u>723,781</u>	<u>327,230</u>	<u>36,723</u>	<u>131,310</u>	<u>1,458,117</u>
<u>\$ 770,260</u>	<u>\$ 327,313</u>	<u>\$ 28,361</u>	<u>\$ 110,917</u>	<u>\$ 1,512,195</u>

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF WASTEWATER SYSTEM**  
**FINAL RECONCILIATION**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Basis of Allocation</u>	<u>Annual Cost 1/1/2015 - 12/31/2015</u>	<u>Less: Lower Pottsgrove</u>
1 Annual System Costs			
2 Wastewater Treatment	A/B	\$ 3,501,669	\$ 872,339 (1),(2),(3)
3 Administration			
Legislative Body	A/B	10,643	2,743
Executive	A/B	68,769	17,721
Auditing Services/Accounting	A/B	194,498	23,704 (4), (5)
Legal	A/B	19,415	1,993
Human Resources	A/B	42,107	10,850
IT-Web Network Services	A/B	85,020	20,731
Engineering	A/B	33,938	5,829
General Gov. Bldg. & Plant	A/B	48,559	12,513
Public Works	A/B	31,270	8,058
Miscellaneous	A/B	731	188
Insurance	A/B	53,523	13,792
Employee Benefits	A/B	380,477	98,043
		<u>968,950</u>	<u>216,165</u>
4 Sewer Lines		-	-
5 Porter Road Pump Station	C	20,203	1,471
6 Electric-Pump Stations	B	22,143	-
7 Maint. & Repairs Sewer Lines	B	127,617	-
8 Maint. Of Meters	B	2,767	-
9 Elec. Flow Meter	B	559	144
10 Total System Costs		<u>4,643,908</u>	<u>1,090,119</u>
11 Deductions-Revenue			
12 MIPP	A/B	3,319	855
13 Violations, Inspections, Permits	A/B	7,910	2,038
14 Sewer Bulk Collection	A/B	2,276,491	586,615
15 Waste Mgmt.-Leachate	A/B	90,301	23,269
16 Wage Allocation-06	A/B	42,405	10,927
17 Energy Capacity Payments	A/B	872	225
18 Scrap Sales	A/B	1,935	498
20 Total Deductions-Revenue		<u>2,423,233</u>	<u>624,427</u>
21 Net System Costs		<u>\$ 2,220,675</u>	<u>465,692</u>
Final Allocation %		100%	20.97%
2015 Quarterly Payments			<u>457,333</u>
Due to Borough			<u>\$ 8,359</u>

**FOOTNOTES**

- A Metered Flow-Adjusted For Non Metered And Bulk
- B Flows-Pottstown, Upper And West Pottsgroves
- C Porter Road Pump Station
- (1) Excludes cost associated with the WWTP pumping station - LPT = \$77,409 WPT = \$76,331
- (2) Excludes cost associated with the Memorial Park pumping station - LPT & UPT = \$19,338
- (3) 100% of cost associated with the Circle of Progress pumping station allocated to PT = \$7,602
- (4) Excludes \$87,045 related to billing and collections.
- (5) Excludes \$10,087 of Dallas Data billing charges.
- (6) Excludes \$9,766 of Portnoff Law Associates collection fees.

<u>Net Cost</u>	<u>Upper Pottsgrove</u>	<u>West Pottsgrove</u>	<u>Pottstown</u>
\$ <u>2,629,330</u>	\$ <u>199,767</u> (2)	\$ <u>375,049</u> (1)	\$ <u>2,054,514</u>
7,900	608	1,175	6,117
51,048	3,931	7,595	39,522
170,794	12,399 (6)	23,956 (6)	134,439
17,422	442	854	16,126
31,257	2,407	4,650	24,200
64,289	4,951	9,565	49,773
28,109	1,993	2,498	23,618
36,046	2,776	5,363	27,907
23,212	1,787	3,454	17,971
543	42	81	420
39,731	3,060	5,911	30,760
<u>282,434</u>	<u>21,749</u>	<u>42,020</u>	<u>218,665</u>
<u>752,785</u>	<u>56,145</u>	<u>107,122</u>	<u>589,518</u>
-	-	-	-
18,732	2,547	-	16,185
22,143	-	9,825	12,318
127,617	9,827	18,987	98,803
2,767	213	412	2,142
415	32	62	321
<u>3,553,789</u>	<u>268,531</u>	<u>511,457</u>	<u>2,773,801</u>
2,464	190	367	1,907
5,872	452	874	4,546
1,689,876	130,131	251,417	1,308,328
67,032	5,162	9,973	51,897
31,478	2,424	4,683	24,371
647	50	96	501
1,437	111	214	1,112
<u>1,798,806</u>	<u>138,520</u>	<u>267,624</u>	<u>1,392,662</u>
\$ <u>1,754,983</u>	<u>130,011</u>	<u>243,833</u>	\$ <u>1,381,139</u>
	5.85%	10.98%	62.19%
	<u>122,817</u>	<u>224,000</u>	
	\$ <u>7,194</u>	\$ <u>19,833</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, 2015, and the related notes to the financial statements, which collectively comprise the Borough of Pottstown's basic financial statements, and have issued our report thereon dated June 6, 2016.

***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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be material weaknesses [2015-001 and 2015-002].

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.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Maille LLP*

Oaks, Pennsylvania  
June 6, 2016

***Independent Auditors' Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance in Accordance With the Uniform Guidance***

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

***Report on Compliance for Each Major Federal Program***

We have audited the Borough of Pottstown's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Borough of Pottstown's major federal programs for the year ended December 31, 2015. 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 and the Uniform Guidance 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, 2015.

To the Borough Council  
Borough of Pottstown  
Pottstown, Pennsylvania

### ***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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

*Maille LLP*

Oaks, Pennsylvania  
June 6, 2016

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

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
<b>Federal Transit Formula Grants</b>	20.507*	\$ 581,927
<b>Passed through the Commonwealth of Pennsylvania</b>		
Airport Improvement Program	20.106	332,646
Highway Planning and Construction	20.205	152,741
Alcohol Impaired Driving Countermeasures Grants	20.601	<u>47,996</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>1,115,310</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>		
<b>Bulletproof Vest Partnership Program</b>	16.607	3,400
<b>Passed through the Municipality of Norristown</b>		
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>20,035</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>23,435</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Passed through the Commonwealth of Pennsylvania</b>		
Summer Food Program for Children	10.559	<u>153,659</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,292,404</u>

\*Tested as a major program

*See accompanying notes to the schedule of expenditures of federal awards.*

**BOROUGH OF POTTSTOWN**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2015

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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 ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note A to the Borough's basic financial statements.

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

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**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Borough of Pottstown.
2. Two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based upon and Audit of Financial Statements Performed in Accordance With Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Borough of Pottstown were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in accordance with the Uniform Guidance.
5. The auditors' report on compliance for the major award programs of the Borough of Pottstown expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
7. The programs tested as major programs include:

Program	CFDA
Federal Transit Cluster	20.507
8. The threshold used for distinguishing Types A and B programs was \$750,000.
9. The Borough of Pottstown was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2015-001 Investment of Borough**

During our audit, we discovered the funds committed towards the Borough's Other Post Employment Benefit Obligation (OPEB) are not invested in instruments that meet the Pennsylvania Borough Code (the Code). Some of the authorized investments under the Code are US Treasury bills, short-term obligations of the US government or its agencies, deposits in savings accounts, time deposits and certificates of deposit and obligations of the US, the Commonwealth of PA and/or its agencies or political subdivisions. We believe the Borough's controls over authorizing investments should be such as to prevent such investing in unauthorized investments.

**BOROUGH OF POTTSTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

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**Recommendations**

We recommend the Borough review its control procedures over authorization of investments and also have those investments committed for OPEB transferred to other investments that meet the Code.

**2015-002 Establish a Non-Uniformed Pension Trust**

During our audit, we discovered the Non-Uniformed Pension Trust Fund did not have a formal Trust established. Effective January 1, 2015, the Borough pulled the Non-Uniformed Pension Trust fund assets out of the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer public employee retirement system, and into a single-employer plan similar to the Borough's Police Pension Plan. However, at the time of the transfer and through December 31, 2015, the Borough never passed a resolution establishing a Trust agreement or filed a determination letter with the Internal Revenue Service (IRS) seeking a favorable determination with respect to the qualified status of the Pension Plan.

**Recommendations**

We recommend the Borough's controls should be reviewed and updated so any similar situations in the future will be addressed timely. It should be noted, as of the date of this report, the Borough has passed a formal resolution establishing a Trust agreement and the determination letter application has been filed and received by the IRS.

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

None.