

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

**ANNUAL FINANCIAL REPORT**

*Year Ended December 31, 2015*



*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

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

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YEAR ENDED DECEMBER 31, 2015

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## **FINANCIAL SECTION**

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

To the Board of Directors  
Pottstown Borough Authority  
Pottstown, Pennsylvania

We have audited the accompanying financial statements of the business type activities and each major fund of the Pottstown Borough Authority (a component unit of the Borough of Pottstown) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Pottstown Borough Authority's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

To the Board of Directors  
Pottstown Borough Authority  
Pottstown, Pennsylvania

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of the Pottstown Borough Authority as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Maille LLP*

Oaks, Pennsylvania  
April 20, 2016

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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The Pottstown Borough Authority, hereafter referred to as the "Authority," hereby presents its financial statements developed in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, entitled *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments* (hereafter "GASB 34"), and its related standards. GASB 34 enhances information provided to the users of these financial statements. This section of the financial reporting package presents a discussion and analysis of the Authority's financial performance during the calendar year that ended on December 31, 2015. Please read it in conjunction with the Authority's financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

**FINANCIAL ANALYSIS**

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

**Condensed Statements of Net Position**

	December 31,		Variance	
	2015	2014	Dollars	%
<b>ASSETS</b>				
Current assets	\$ 10,813,726	\$ 12,472,849	\$ (1,659,123)	-13%
Restricted assets	18,482,966	21,042,340	(2,559,374)	-12%
Capital assets, net	51,565,983	48,479,024	3,086,959	6%
Other assets	8,402	9,452	(1,050)	-11%
TOTAL ASSETS	<u>80,871,077</u>	<u>82,003,665</u>	<u>(1,132,588)</u>	-1%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding, net of accumulated amortization	1,071,767	1,270,783	(199,016)	-16%
<b>LIABILITIES</b>				
Current liabilities	6,570,086	6,155,878	414,208	7%
Long-term liabilities	33,957,990	39,168,323	(5,210,333)	-13%
TOTAL LIABILITIES	<u>40,528,076</u>	<u>45,324,201</u>	<u>(4,796,125)</u>	-11%
<b>NET POSITION</b>				
Net investment in capital assets	30,791,463	26,965,851	3,825,612	14%
Restricted for debt service	1,867,990	2,496,690	(628,700)	-25%
Unrestricted	8,755,315	8,487,706	267,609	3%
TOTAL NET POSITION	<u>\$ 41,414,768</u>	<u>\$ 37,950,247</u>	<u>\$ 3,464,521</u>	9%

**Current Assets** for the combined Water and Sewer Funds decreased by \$1.7 million or 13% from 2014 to 2015. Sewer cash and cash equivalents and unrestricted investments decreased by \$2.0 million. This decrease was related to an aggressive capital spending program. This program included \$1.5 million for sewer plant upgrades which began in 2013 and included bulk waste upgrades, centrifuge upgrades and an additional effluent meter. An additional \$.8 was spent on replacement of sewer lines. In addition, \$.8 million was transferred from the Sewer Operating Fund to the Sewer Capital Fund to support these projects. Water cash and cash equivalents and unrestricted investments decreased by \$.6 million. These funds combined with cash generated from 2015 water system operations were used for the \$2.0 million water capital program of which \$1.6 million dedicated to water main replacement.

**Restricted Assets** decreased by \$2.6 million or 12%. This decrease was due to the payment of \$2.1 million in debt service from the Debt Service Reserve Fund for the 1991 sewer bonds.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

**Capital Assets** increased by \$3.1 million or 6%. This resulted from the increase in capital spending of \$4.5 million for the projects discussed previously offset by depreciation and amortization.

**Deferred Outflows of Resources** decreased by \$.2 million or 16% due to the amortization of deferred losses on the refunding of water and sewer bonds.

**Liabilities** decreased by \$4.8 million or 11%. Current liabilities increased by \$.4 million as a result of the accrual of a significant capital invoice related to the water and sewer main replacements. Long-term liabilities decreased \$5.2 million due to scheduled debt principal payments.

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

	December 31,		Variance	
	2015	2014	Dollars	%
OPERATING REVENUES	\$ 9,352,015	\$ 9,133,645	\$ 218,370	2%
OPERATING EXPENSES				
General government	542,869	531,263	11,606	2%
Public works, water sanitation	2,144,760	1,934,902	209,858	11%
Benefits and insurance	425,576	413,800	11,776	3%
Depreciation and amortization	1,928,491	1,951,759	(23,268)	-1%
Administration and general expenses	197,709	37,649	160,060	425%
Management fee	395,552	377,191	18,361	5%
TOTAL OPERATING EXPENSES	5,634,957	5,246,564	388,393	7%
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	190,152	201,333	(11,181)	-6%
Realized gains	1,604,412	1,562,827	41,585	3%
Unrealized losses	(1,420,617)	(1,063,064)	(357,553)	-34%
Capital grants and contributions	1,040,448	412,201	628,247	152%
Increase in accretion on bonds	(838,700)	(931,563)	92,863	10%
Interest expense	(1,243,783)	(1,362,600)	118,817	9%
Contribution from Borough sewer operating	800,000	800,000	-	0%
Contribution from Borough sewer line fund	19,203	-	19,203	100%
Contribution to Borough garage project	(200,000)	-	(200,000)	-100%
Transfer to Borough capital fund	(203,652)	-	(203,652)	-100%
Reimbursement to Borough general operating	-	(7,832)	7,832	-100%
Gain on disposal of capital assets	-	2,800	(2,800)	100%
TOTAL NONOPERATING REVENUES (EXPENSES)	(252,537)	(385,898)	133,361	35%
CHANGE IN NET POSITION	\$ 3,464,521	\$ 3,501,183	\$ (36,662)	-1%

**Operating Revenues** increased by \$.2 million or 2% due to higher sewer rental revenues from the sewer operating fund for debt service and slightly higher water sales.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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**Total Operating Expenses** increased by \$.4 million in 2015. The increase was the result of higher public works wage allocations \$.2 million and the write-off of unrecoverable engineering charges from a bankrupt developer's escrow account.

**Nonoperating Revenues (Expenses)** changed in 2015 due to an increase in capital contributions from the townships that participate in the cost sharing of the sewer plant and higher unrealized losses on sewer fund restricted investments. In addition, beginning in 2015, the PBA entered into an agreement to pay ten annual installments of \$.2 to contribute its share of the new public works facility being built by the Borough. The first payment was made in 2015.

**Capital Assets and Long-Term Debt**

Cash in restricted construction accounts and operating reserves will be adequate to fund existing capital programs at the Water Treatment Plant the Wastewater Treatment Plant and planned infrastructure projects. The Authority's Planning and Capital Projects Committee (Committee) maintains a Five Year Capital Plan for the plants and the water and sewer infrastructure. Significant authorized capital projects include:

**Water**

Ongoing Water Main Replacements (current program complete in 2018)	\$2,500,000
SCADA Upgrades (complete in 2016)	\$75,000
PLC Migration (complete in 2016)	\$230,000
Water Plant Security and Communications (complete in 2016)	\$265,000

**Sewer**

Bulk waste upgrades, centrifuge upgrades and effluent meter (complete in 2016)	\$1,900,000
Ongoing Sewer Main Replacement (current program complete in 2018)	\$3,900,000
SCADA Upgrades (complete in 2016)	\$48,000
PLC Migration (complete in 2018)	\$250,000
Sewer Plant Security and Communications (complete in 2017)	\$250,000

Additional major sewer plant, water plant and infrastructure projects included in the Five Year Capital Plan are currently being reviewed by the Committee, but have not yet been approved by the Authority.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

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

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 670,735	\$ 3,338,003	\$ 4,008,738
Investments	908,563	-	908,563
Prepaid expenses	-	27,060	27,060
Trade receivables, less allowance for doubtful accounts of \$182,639	-	917,131	917,131
Other receivables	978,360	-	978,360
	<u>2,557,658</u>	<u>4,282,194</u>	<u>6,839,852</u>
<b>TOTAL CURRENT ASSETS</b>			
<b>CASH AND INVESTMENTS, restricted</b>			
Cash and cash equivalents	888,303	2,318,108	3,206,411
Investments	15,426,445	3,823,984	19,250,429
	<u>16,314,748</u>	<u>6,142,092</u>	<u>22,456,840</u>
<b>TOTAL CASH AND INVESTMENTS, restricted</b>			
<b>CAPITAL ASSETS</b>			
Land	36,650	330,179	366,829
Construction in progress	2,862,914	2,162,636	5,025,550
Buildings and building improvements	31,547,194	-	31,547,194
Machinery and equipment	1,409,551	1,193,765	2,603,316
Infrastructure	6,356,439	34,162,574	40,519,013
Accumulated depreciation	(16,625,215)	(11,870,704)	(28,495,919)
	<u>25,587,533</u>	<u>25,978,450</u>	<u>51,565,983</u>
<b>TOTAL CAPITAL ASSETS</b>			
<b>OTHER ASSETS</b>			
Unamortized debt discounts, net	-	8,402	8,402
	<u>44,459,939</u>	<u>36,411,138</u>	<u>80,871,077</u>
<b>TOTAL ASSETS</b>			
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on refunding, net of accumulated amortization	602,991	468,776	1,071,767
	<u>602,991</u>	<u>468,776</u>	<u>1,071,767</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>\$ 45,062,930</u>	<u>\$ 36,879,914</u>	<u>\$ 81,942,844</u>

See accompanying notes to the basic financial statements.

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 159,435	\$ 384,925	\$ 544,360
Accrued interest	100,973	14,390	115,363
Due to other governments	19,203	-	19,203
Current portion of bonds payable	<u>4,427,456</u>	<u>1,463,704</u>	<u>5,891,160</u>
TOTAL CURRENT LIABILITIES	<u>4,707,067</u>	<u>1,863,019</u>	<u>6,570,086</u>
LONG-TERM LIABILITIES			
Unamortized bond premiums, net	227,833	26,201	254,034
Bonds payable, long-term portion	21,908,748	11,755,064	33,663,812
Compensated absences	-	40,144	40,144
TOTAL LONG-TERM LIABILITIES	<u>22,136,581</u>	<u>11,821,409</u>	<u>33,957,990</u>
NET POSITION			
Net investment in capital assets	15,602,318	15,189,145	30,791,463
Restricted for debt service, accreted value of 1991 Bonds in excess of 1991 Bond Escrow Fund	1,867,990	-	1,867,990
Unrestricted	<u>748,974</u>	<u>8,006,341</u>	<u>8,755,315</u>
TOTAL NET POSITION	<u>18,219,282</u>	<u>23,195,486</u>	<u>41,414,768</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 45,062,930</u>	<u>\$ 36,879,914</u>	<u>\$ 81,942,844</u>

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2015

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Rental income, sewer system	\$ 3,062,306	\$ -	\$ 3,062,306
Charges for services	-	6,075,684	6,075,684
Royalties and other rentals	-	191,525	191,525
Grants and contributions	-	22,500	22,500
	<u>3,062,306</u>	<u>6,289,709</u>	<u>9,352,015</u>
<b>OPERATING EXPENSES</b>			
General government	-	542,869	542,869
Public works, water sanitation	-	2,144,760	2,144,760
Benefits and insurance	-	425,576	425,576
Depreciation and amortization	869,851	1,058,640	1,928,491
Administrative and general	185,804	11,905	197,709
Management fees	-	395,552	395,552
	<u>1,055,655</u>	<u>4,579,302</u>	<u>5,634,957</u>
	<u>2,006,651</u>	<u>1,710,407</u>	<u>3,717,058</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	183,543	6,609	190,152
Realized gains on investments	1,604,412	-	1,604,412
Unrealized losses on investments	(1,397,717)	(22,900)	(1,420,617)
Capital grants and contributions	1,040,448	-	1,040,448
Increase in accretion of bonds	(838,700)	-	(838,700)
Interest expense	(766,494)	(477,289)	(1,243,783)
Contribution from Borough sewer operating fund	800,000	-	800,000
Contribution from Borough sewer line fund	19,203	-	19,203
Contribution from Authority water fund	35,286	(35,286)	-
Contribution to Borough garage project	(100,000)	(100,000)	(200,000)
Transfer to Borough capital fund	(98,620)	(105,032)	(203,652)
	<u>481,361</u>	<u>(733,898)</u>	<u>(252,537)</u>
	<u>2,488,012</u>	<u>976,509</u>	<u>3,464,521</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>			
	<u>15,731,270</u>	<u>22,218,977</u>	<u>37,950,247</u>
	<u>\$ 18,219,282</u>	<u>\$ 23,195,486</u>	<u>\$ 41,414,768</u>

See accompanying notes to the basic financial statements.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ -	\$ 6,185,476	\$ 6,185,476
Cash receipts for rental of sewer system	3,062,306	-	3,062,306
Cash paid to suppliers	(76,369)	(1,558,928)	(1,635,297)
Cash paid to employees	-	(1,626,257)	(1,626,257)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,985,937</u>	<u>3,000,291</u>	<u>5,986,228</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interest paid on bonds	(767,307)	(473,467)	(1,240,774)
Transfer (to) from Borough	639,786	(205,032)	434,754
Interfund transfers	35,286	(35,286)	-
Principal paid on bonds	(4,605,000)	(1,425,367)	(6,030,367)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(4,697,235)</u>	<u>(2,139,152)</u>	<u>(6,836,387)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	(2,820,528)	(2,151,594)	(4,972,122)
Contributions from townships	200,152	-	200,152
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,620,376)</u>	<u>(2,151,594)</u>	<u>(4,771,970)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	183,543	6,609	190,152
Sale (purchase) of investments	3,206,072	(3,371,970)	(165,898)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>3,389,615</u>	<u>(3,365,361)</u>	<u>24,254</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(942,059)	(4,655,816)	(5,597,875)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,501,097</u>	<u>10,311,927</u>	<u>12,813,024</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,559,038</u>	<u>\$ 5,656,111</u>	<u>\$ 7,215,149</u>
<b>CASH AND CASH EQUIVALENTS COMPRISED OF</b>			
Current	\$ 670,735	\$ 3,338,003	\$ 4,008,738
Restricted	888,303	2,318,108	3,206,411
	<u>\$ 1,559,038</u>	<u>\$ 5,656,111</u>	<u>\$ 7,215,149</u>

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 2,006,651	\$ 1,710,407	\$ 3,717,058
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	809,484	965,499	1,774,983
Amortization	60,367	93,141	153,508
(Increase) decrease in			
Prepaid expenses	-	25,024	25,024
Receivables	-	(104,233)	(104,233)
Decrease in accounts payable and accrued expenses	<u>109,435</u>	<u>310,453</u>	<u>419,888</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,985,937</u>	 <u>\$ 3,000,291</u>	 <u>\$ 5,986,228</u>

*See accompanying notes to the basic financial statements.*

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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

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

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

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

**Reporting Entity**

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

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

**Basis of Accounting**

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

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

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

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

**Cash and Cash Equivalents**

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

**Capital Assets**

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

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

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

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

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

Restricted cash and investments consist partially of funds of \$12,759,194, as provided under the 1991 Escrow Agreement dated December 15, 1996. The remaining portion of restricted cash and investments of \$9,697,646 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.

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

**Net Position**

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

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

**Use of Estimates**

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

**Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not currently have any deferred inflows.

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**NOTE B - DEPOSITS AND INVESTMENTS**

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 pledging 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.

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**NOTE C - CAPITAL ASSETS**

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
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<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
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<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)
TOTAL ACCUMULATED DEPRECIATION	<u>(15,815,731)</u>	<u>(809,484)</u>	<u>-</u>	<u>(16,625,215)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>23,336,696</u>	<u>(648,727)</u>	<u>-</u>	<u>22,687,969</u>
<b>SEWER FUND CAPITAL ASSETS, net</b>	<u><u>\$ 23,686,668</u></u>	<u><u>\$ 1,900,865</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,587,533</u></u>
<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
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>535,199</u>	<u>1,957,616</u>	<u>-</u>	<u>2,492,815</u>
Capital assets being depreciated				
Machinery and equipment	1,057,687	136,078	-	1,193,765
Infrastructure	34,104,674	57,900	-	34,162,574
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>35,162,361</u>	<u>193,978</u>	<u>-</u>	<u>35,356,339</u>
Accumulated depreciation				
Machinery and equipment	(670,218)	(90,298)	-	(760,516)
Infrastructure	(10,234,987)	(875,201)	-	(11,110,188)
TOTAL ACCUMULATED DEPRECIATION	<u>(10,905,205)</u>	<u>(965,499)</u>	<u>-</u>	<u>(11,870,704)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>24,257,156</u>	<u>(771,521)</u>	<u>-</u>	<u>23,485,635</u>
<b>WATER FUND CAPITAL ASSETS, net</b>	<u><u>\$ 24,792,355</u></u>	<u><u>\$ 1,186,095</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,978,450</u></u>

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

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**NOTE D - LONG-TERM LIABILITIES**

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>30,366,329</u>	<u>838,700</u>	<u>(4,640,992)</u>	<u>26,564,037</u>	<u>4,427,456</u>
<b>TOTAL SEWER FUND LONG-TERM LIABILITIES</b>	<b>\$ 30,366,329</b>	<b>\$ 838,700</b>	<b>\$ (4,640,992)</b>	<b>\$ 26,564,037</b>	<b>\$ 4,427,456</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>14,721,748</u>	<u>-</u>	<u>(1,436,635)</u>	<u>13,285,113</u>	<u>1,463,704</u>
<b>TOTAL WATER FUND LONG-TERM LIABILITIES</b>	<b>\$ 14,721,748</b>	<b>\$ -</b>	<b>\$ (1,436,635)</b>	<b>\$ 13,285,113</b>	<b>\$ 1,463,704</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.

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

The Pottstown Borough Authority Sewer Fund Bond, Series of 1991, is secured by a Trust Indenture. The bonds are payable out of escrow funds and the revenues of the Authority, principally from a Fourth Supplemental Lease dated December 15, 1996, originally dated May 1, 1989, between the Authority (lessor) and the Borough (lessee). The Borough agrees to pay semiannual rents of varying amounts coinciding with the life of the Authority bond issue and sufficient to pay the Authority's debt service requirements.

The Authority entered into an escrow agreement on December 15, 1996, whereby funds were deposited in an escrow account to fund a portion of maturity values for the 1991 Bonds. At December 31, 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>

**POTTSTOWN BOROUGH AUTHORITY**  
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**NOTE D - 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>		

**Sewer Revenue Bonds of 2012**

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

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

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**NOTE D - 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>
\$ 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, Series of 2007**

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

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

The outstanding bonds are summarized as follows:

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

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

**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 bear an interest rate at 2.50% over the life of the bonds. 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 to 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.

**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.

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

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>		

**Water Revenue Bonds of 2012**

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

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

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**NOTE D - 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 E - CONDUIT DEBT**

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

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

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.

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**NOTE F - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2015. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE G - SEWER SYSTEM LEASE AGREEMENT**

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

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

Year Ending <u>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>

Rents received from the Borough in 2015 were \$3,062,306.

**POTTSTOWN BOROUGH AUTHORITY**  
**(A Component Unit of the Borough of Pottstown)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE H - MANAGEMENT AGREEMENT**

Effective November 15, 1990, and as amended with the First Supplemental Management Agreement dated July 15, 1998, and the Second Supplemental Management Agreement dated August 19, 2007, the Authority entered into a management agreement with the Borough to manage the day-to-day operations of the water system to include repair, maintenance and administration. The management agreement expires in 2015. The management fee will be the greater of \$100,000 or a sum equal to 6.1% of the aggregate of the budgeted annual costs of operating and maintaining the water system and 115% of the average annual debt service requirements on water revenue bonds.

Management fees for the year ended December 31, 2015, were \$395,552.

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

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

The amount recognized as revenue under this agreement in 2015 was \$362,038.

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

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