

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Upper Pottsgrove Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3021460**

19. Cost of Service.
- a. Provide a copy of the seller's two most recent audited financial statements.

RESPONSE:

See attached the seller's two most recent audited financial statements (2018 and 2019). Both financial statements are attached as **Appendix A-19-a**.

TOWNSHIP OF UPPER POTTSGROVE
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2018



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

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FINANCIAL SECTION



Independent Auditors' Report

To the **B**oard of Commissioners
Townsh**i**p of Upper Pottsgrove
Pottstow**n**, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Upper Pottsgrove as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township of Upper Pottsgrove's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Township of Upper Pottsgrove's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Commissioners
Township of Upper Pottsgrove
Pottstown, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Upper Pottsgrove as of December 31, 2018, and the respective changes in financial position—modified cash basis and, where applicable, cash flows, thereof for the years then ended on the basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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 management's discussion and analysis on pages 5 through 14, budgetary comparison information on pages 52 and 53 and pension plan information on pages 54 through 59 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.

Maille LLP

Oaks, Pennsylvania
September 13, 2019

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Our discussion and analysis of the Township of Upper Pottsgrove (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2018, within the limitations of the Township's modified cash basis of accounting. Please read it in conjunction with the Township's financial statements that begin on page 15.

FINANCIAL HIGHLIGHTS

- The Township's General Fund has a modified cash basis fund balance of \$1,419,928 at December 31, 2018. This compares to a fund balance of \$782,190 at the end of 2017. The difference in fund totals is due to completing budgeted projects on time preserving a carryover balance. Also, during 2018 there was \$605,159 of transfers in from other funds as follows:
 - \$113,460 transfer from Open Space Fund for .25% Earned Income Tax revenue for tax year 2018.
 - \$100,000 transfer from Open Space Fund to cover prior year General Obligation Bond Series of 2013 payment.
 - \$121,699 transfer from Capital Projects Fund to reimburse engineering expenses related to the proposed public works building.
 - \$270,000 transfer from Sewer Fund for budgeted transfers in year 2016 and 2017 that were never made.
- The Township's Highway Aid Fund has a modified cash basis fund balance of \$(8,665) at December 31, 2018. This compares to a fund balance of \$5,121 at December 31, 2017. The difference in fund totals is due to utilization of an erroneous carryforward amount of December 31, 2017 fund balance when preparing the 2018 budget.
- The Township's Open Space Fund has a modified cash basis fund balance of \$321,028 at December 31, 2018, which will be used for the acquisition of land. This compares to \$321,521 at December 31, 2017.
- The Township's Sewer Fund has a modified cash basis net position of \$873,234 at December 31, 2018, which will be used for future sanitary sewer improvement projects in the Township. This compares to \$847,828 at December 31, 2017. The difference in fund totals is due to completing budgeted projects on time and a reduction in operating costs in 2018.
- The Township's outstanding long-term debt principal balance at December 31, 2018 decreased by \$858,899 due to regularly scheduled debt payments in 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: Management's Discussion and Analysis (MD&A), the basic financial statements, notes to financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Government-Wide Financial Statements

The statement of net position—modified cash basis and the statement of activities—modified cash basis (on pages 15 and 16) provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances. The statement of activities reports revenues and expenditures utilizing the modified cash basis of accounting as described in Note B to the financial statements.

Fund Financial Statements

Fund financial statements (beginning on page 17) focus on the individual parts of the Township's government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant "major" funds. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the Township operates like businesses, such as the sewer services.

Notes to the Basic Financial Statements

The notes to financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information

The MD&A (pages 5 through 14), pension information (page 54 to page 59) and the budgetary comparison schedule (pages 52 and 53) represent financial information required by Governmental Accounting Standards Board (GASB) to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as the basic financial statements).

BASIS OF ACCOUNTING

The Township has elected to present its financial statements on a modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded. Under the modified cash basis of accounting, only revenues collected and expenditures paid and intergovernmental due to and due from receivables and payables are recorded. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred.

As a result of the use of the modified cash basis of accounting, other receivables, other payables, inventories, long-lived assets, accrued income and expenses, and amortization and depreciation are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

REPORTING THE TOWNSHIP AS A WHOLE

The Township's Reporting Entity Presentation

This annual report includes all activities for which the Township is responsible. Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the reporting entity, we have considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the significance of their operational or financial relationships with the Township. There are no agencies or entities which should be presented with the Township.

The Government-Wide Statement of Net Position and the Statement of Activities

The government-wide financial statements are presented on pages 15 and 16. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse as a result of the year's activities?" The statement of net position--modified cash basis and the statement of activities--modified cash basis report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include only the Township's assets, liabilities and activities resulting from the use of the modified cash basis of accounting, as described.

These two statements report the Township's net position and changes in them. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. You will need to also consider nonfinancial factors to assess the overall health of the Township (i.e., changes in the Township's tax base, the condition of the Township's roads, etc.). In addition, the limitations of the modified cash basis of accounting should be considered when analyzing the overall financial health of the Township.

In the statement of net position--modified cash basis and the statement of activities--modified cash basis, we divide the Township into two types of activities:

Governmental Activities - Most of the Township's basic services are reported here, including general government services, public safety, public works, and culture and recreation. Charges related to these services finance a portion of these activities and the balance with general revenues of the Township, including real estate taxes, earned income taxes and grants.

Business-Type Activities - The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's sewer system operation is reported here.

REPORTING THE TOWNSHIP'S MOST SIGNIFICANT FUNDS

The Fund Financial Statements

The fund financial statements begin on page 17 and provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by state law or by bond covenants. However, the Township establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The Township's two kinds of funds - governmental and proprietary - under the modified cash basis of accounting use the same accounting approaches.

Governmental Funds - Most of the Township's basic services are reported in governmental funds which focus on how money flows in and out of those funds and the balances remaining at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as cash disbursements and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds - When the Township charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. The Fiduciary Funds financial statements can be found later in this report.

Fiduciary Funds - The Escrow Fund is used to account for assets held by the Township on the behalf of individuals or other organizations.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Appendix A-19-a

A FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Position--Modified Cash Basis

The Township's combined net position, resulting from modified cash basis transactions, was \$2,773,588 at December 31, 2018.

Statements of Net Position--Modified Cash Basis
December 31, 2018 and 2017

	2018		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current and other assets	\$ 1,900,354	\$ 873,234	\$ 2,773,588
NET POSITION			
Restricted	444,618	-	444,618
Unrestricted	1,455,736	873,234	2,328,970
TOTAL NET POSITION	\$ 1,900,354	\$ 873,234	\$ 2,773,588

Net position is shown as restricted if it can only be used for a specific purpose. Net position of \$444,618 and \$488,714 at December 31, 2018 and 2017, respectively, is restricted and the remaining net position is unrestricted.

2017		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ <u>1,327,300</u>	\$ <u>847,828</u>	\$ <u>2,175,128</u>
488,714	-	488,714
<u>838,586</u>	<u>847,828</u>	<u>1,686,414</u>
<u>\$ 1,327,300</u>	<u>\$ 847,828</u>	<u>\$ 2,175,128</u>

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Appendix A-19-a

Summary of Statement of Activities--Modified Cash Basis
Years Ended December 31, 2018 and 2017

	2018		Totals
	Governmental Activities	Business-Type Activities	
REVENUES			
Program revenues			
Charges for services	\$ 526,405	\$ 1,388,584	\$ 1,914,989
Operating grants and contributions	471,779	9,518	481,297
Capital grants and contributions	-	69,292	69,292
General revenues			
Real estate taxes	1,096,797	-	1,096,797
Per capita taxes	663	-	663
Real estate transfer taxes	174,179	-	174,179
Earned income taxes	1,362,921	-	1,362,921
Local service taxes	37,419	-	37,419
Interest income and rents	171,444	10,727	182,171
Refunds of prior year expenses	178,614	-	178,614
Other	4,000	-	4,000
Transfers	270,000	(270,000)	-
TOTAL REVENUES	<u>4,294,221</u>	<u>1,208,121</u>	<u>5,502,342</u>
EXPENSES			
General government	696,292	-	696,292
Public safety	1,795,062	-	1,795,062
Public works	627,914	1,182,715	1,810,629
Culture and recreation	64,822	-	64,822
Community development	-	-	-
Debt service	358,127	-	358,127
Refund of prior year revenue	33,278	-	33,278
Other	145,672	-	145,672
TOTAL EXPENSES	<u>3,721,167</u>	<u>1,182,715</u>	<u>4,903,882</u>
CHANGE IN NET POSITION	<u>\$ 573,054</u>	<u>\$ 25,406</u>	<u>\$ 598,460</u>

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2017		
Governmental Activities	Business-Type Activities	Totals
\$ 733,114	\$ 1,398,744	\$ 2,131,858
451,369	-	451,369
-	-	-
1,172,663	-	1,172,663
3,910	-	3,910
148,342	-	148,342
1,361,207	-	1,361,207
29,236	-	29,236
139,324	9,477	148,801
-	-	-
1,492	-	1,492
-	-	-
<u>4,040,657</u>	<u>1,408,221</u>	<u>5,448,878</u>
718,955	-	718,955
1,706,945	-	1,706,945
806,630	1,338,635	2,145,265
104,357	-	104,357
8,554	-	8,554
343,810	-	343,810
-	-	-
149,412	-	149,412
<u>3,838,663</u>	<u>1,338,635</u>	<u>5,177,298</u>
<u>\$ 201,994</u>	<u>\$ 69,586</u>	<u>\$ 271,580</u>

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

The Township's combined net position, resulting from modified cash basis transactions, increased by \$598,460 during 2018. Looking at the net position and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$573,054 and business-type activities had an increase of \$25,406 during 2018.

To aid in the understanding of the statement of activities, some additional explanation is provided.

Governmental Activities

Of particular interest is the format that is significantly different from a typical statement of activities. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is net (expenditures) revenue by program. This type of format highlights the relative financial burden of each of the functions on the Township's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenues, even if restricted for a specific purpose.

For the years ended December 31, 2018 and 2017, total revenues for governmental activities, resulting from modified cash basis transactions, amounted to \$4,294,221 and \$4,040,657, respectively.

For the year ended December 31, 2018, total expenditures for governmental activities resulting from modified cash basis transactions amounted to \$3,721,167. Of these total disbursements, taxpayers and other general revenues funded \$3,296,037, while those directly benefiting from the program funded \$471,779 from grants and contributions and \$526,405 from charges for services. Expenditures included \$358,127 of interest on long-term debt. For the year ended December 31, 2017, total expenditures for governmental activities resulting from modified cash basis transactions amounted to \$3,838,663. Of these total disbursements, taxpayers and other general revenues funded \$2,856,174, while those directly benefiting from the program funded \$451,369 from grants and contributions and \$733,114 from charges for services. Expenditures included \$343,810 of interest on long-term debt.

Business-Type Activities

In reviewing the business-type activities' net revenues and expenditures resulting from modified cash basis transactions for the year ended December 31, 2018 and 2017, there are certain activities that need to be examined more closely. While the business-type activities reported net revenues for user charges of \$1,388,584 and \$1,398,744, in 2018 and 2017, respectively, the business-type activities reported expenditures of \$1,182,715 and \$1,338,635 in 2018 and 2017, respectively. In 2018 and 2017, the business-type activities had an operating income (loss) of \$25,406 and \$69,586, respectively.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

A FINANCIAL ANALYSIS OF THE TOWNSHIP'S INDIVIDUAL FUNDS

Certain funds experience noteworthy changes from the prior year and are highlighted as follows:

- For the year ended December 31, 2018, the General Fund reported revenues equaling \$3,786,524 (including transfers in of \$605,159 and \$4,000 proceeds from sale of fixed assets) and expenditures equaling \$3,148,786 (including transfers out of \$7,429) resulting in a current year increase of \$637,738. For the year ended December 31, 2017, the General Fund reported revenues equaling \$3,239,592 (including transfers in of \$103,991) and expenditures equaling \$3,178,557 (including transfers out of \$11,245) resulting in a current year increase of \$61,035.
 - The real estate tax millage for general purposes was 3.40 mills for 2018 and 2017. Total real estate tax revenues increased by \$3,753 from 2017.
 - Earned income tax revenues were \$909,082 for the year ended December 31, 2018 and \$908,238 for the year ended December 31, 2017, an increase of \$844.
- The Open Space Fund qualified as a major fund for the years ended December 31, 2018 and 2017 and was reported as such in accordance with the requirements of GASB 34. There was a decrease in fund balance of \$493 in 2018, which was a result of expenditures in excess of revenues, with no property purchases during the year. There was an increase in fund balance of \$98,832 in 2017 which was a result of revenues in excess of expenditures with no property purchases during the year.
- The Sewer Fund had revenues in excess of expenditures in 2018 and 2017 in the amount of \$25,406 and \$69,586, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Township's Board of Commissioners made no revisions to the original adopted budget for 2018 or 2017. For December 31, 2018, General Fund appropriations were in excess of expenditures in the amount of \$264,539, while actual resources available for appropriations were \$620,449 in excess of the final budgeted amount. For December 31, 2017, General Fund appropriations were less than expenditures in the amount of \$103,783, while actual resources available for appropriations were \$620,995 in excess of the final budgeted amount.

CAPITAL ASSETS DEBT ADMINISTRATION

Capital Assets

The acquisition of capital assets by the Township is reported as expenditures in the year of acquisition in the fund acquiring the related assets.

Long-Term Debt

Proceeds from the acquisition of long-term debt are reported as revenues in the respective fund acquiring the debt in the year the proceeds are received. Correspondingly, debt service payments are reported as expenditures in the year payment is made by the fund making the related debt service payments.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

During the years ended December 31, 2018 and 2017, the Township had no proceeds from debt issuance.

As of December 31, 2018, the Township's total outstanding debt was \$8,204,304 compared to \$9,063,203 for the year ended December 31, 2017.

Additional information on the Township's long-term debt can be found in Note E of this report.

NET PENSION LIABILITY

At December 31, 2018, the Township had a net pension liability equal to \$1,658,989 (\$1,313,474 is attributed to the Police Pension Plan and \$345,515 is attributed to the Non-uniform Pension Plan).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

Economic Factors

Although additional Township economic opportunities remain somewhat restricted due to the existing national economy, the Township will continue to aggressively pursue new potential economic growth. Revenue from the digital billboard and cell towers will continue to help buttress the Township's budget.

The Township maintained its efforts to acquire and preserve open space. As a result of this successful endeavor, the Township has now acquired 322 acres of land that is designated as open space and park areas. The acquisition of this open space will assist the Township in developing and sustaining a stable, clean and safe community for its residents.

The Township's population had no significant change in 2018. In addition, anticipated tax revenues continued to come in to the Township as budgeted.

2019 Budget

In 2019 the Township approved a General Fund budget deficit in the amount equal to \$511,056 and budgeted to transfer in \$100,000 from the Open Space Fund and \$175,000 from the Sewer Fund for a net change in fund balance of expenditures in excess of revenues in the amount equal to \$236,056. The Township is continuing to use prior year cash reserves to fund current operating expenses. As previously stated, the Township will persist in its efforts to locate and expand economic development opportunities. In 2019 construction continues on a 58 single family home development located off of West Moyer Road and a 51 unit townhome development located on Cross Road. The Township will continue to improve its infrastructure. A Tax Anticipation Note was not needed for 2019 due to sufficient cash reserves.

Township staff will strive to ensure that the Board of Commissioners remains cognizant of the financial situation of the Township by providing monthly financial updates and other financial data as needed. The Township Board of Commissioners continued their endeavor to provide public accessibility to the Township budget review and approval process by holding a number of public meetings to discuss and approve the 2019 Budget. The 2019 General Fund Budget, unanimously approved by the Board of Commissioners, saw projected revenues increase from \$2,556,916 in 2018 to \$3,176,226 in 2019. The Township will closely monitor and pursue existing and potential economic development and revenue producing opportunities.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Appendix A-19-a

2018 Rates

The Township kept its rates the same in the 2019 budget. The real estate millage assessment was set at 4.0 mills.

Taxes collected in the Township in 2018 included the Earned Income Tax (.75%), the Realty Transfer Tax (1/2%) and the Emergency Municipal Services Tax (\$52 per capita). Act 511 of 1965, as amended, provides local government units with the ability to collect various taxes on residents, businesses and workers within the Township.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Township at 610-323-8675.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF NET POSITION--MODIFIED CASH BASIS
DECEMBER 31, 2018

Appendix A-19-a

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and equivalents	\$ 1,891,933	\$ 881,403	\$ 2,773,336
Due from escrow fund	252	-	252
Internal balances	<u>8,169</u>	<u>(8,169)</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,900,354</u>	<u>\$ 873,234</u>	<u>\$ 2,773,588</u>
NET POSITION			
Restricted	\$ 444,618	\$ -	\$ 444,618
Unrestricted	<u>1,455,736</u>	<u>873,234</u>	<u>2,328,970</u>
TOTAL NET POSITION	<u>\$ 1,900,354</u>	<u>\$ 873,234</u>	<u>\$ 2,773,588</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF ACTIVITIES--MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018

Appendix A-19-a

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 696,292	\$ 216,998	\$ 144,624	\$ -
Public safety	1,795,062	217,407	90,033	-
Public works	627,914	-	231,122	-
Culture and recreation	64,822	5,210	6,000	-
Refunds of prior year revenues	33,278	-	-	-
Other	145,672	86,790	-	-
Interest on long-term debt	358,127	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	3,721,167	526,405	471,779	-
BUSINESS-TYPE ACTIVITIES				
Sewer	1,182,715	1,388,584	9,518	69,292
TOTAL TOWNSHIP ACTIVITIES	\$ 4,903,882	\$ 1,914,989	\$ 481,297	\$ 69,292

GENERAL REVENUES

- Taxes
 - Real estate
 - Transfer
 - Earned income tax
 - Per capita
 - Local services
- Investment income
- Refunds of prior year expenses
- Gain on disposal of capital asset

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-Type</u>	<u>Totals</u>
<u>Activities</u>	<u>Activities</u>	
\$ (334,670)	\$ -	\$ (334,670)
(1,487,622)	-	(1,487,622)
(396,792)	-	(396,792)
(53,612)	-	(53,612)
(33,278)	-	(33,278)
(58,882)	-	(58,882)
<u>(358,127)</u>	<u>-</u>	<u>(358,127)</u>
(2,722,983)	-	(2,722,983)
<u>-</u>	<u>284,679</u>	<u>284,679</u>
<u>(2,722,983)</u>	<u>284,679</u>	<u>(2,438,304)</u>
1,096,797	-	1,096,797
174,179	-	174,179
1,362,921	-	1,362,921
663	-	663
37,419	-	37,419
171,444	10,727	182,171
178,614	-	178,614
4,000	-	4,000
270,000	(270,000)	-
<u>3,296,037</u>	<u>(259,273)</u>	<u>3,036,764</u>
573,054	25,406	598,460
<u>1,327,300</u>	<u>847,828</u>	<u>2,175,128</u>
<u>\$ 1,900,354</u>	<u>\$ 873,234</u>	<u>\$ 2,773,588</u>

TOWNSHIP OF UPPER POTTSGROVE
BALANCE SHEET--MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

Appendix A-19-a

	<u>General Fund</u>	<u>Open Space Fund</u>	<u>Capital Projects Fund</u>	<u>Highway Aid Fund</u>	<u>Fire Protection Fund</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 1,317,032	\$ 404,874	\$ 44,473	\$ 4,498	\$ 121,056	\$ 1,891,933
Due from other funds	112,609	-	-	-	2,534	115,143
Due from escrow funds	<u>252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252</u>
TOTAL ASSETS	<u>\$ 1,429,893</u>	<u>\$ 404,874</u>	<u>\$ 44,473</u>	<u>\$ 4,498</u>	<u>\$ 123,590</u>	<u>\$ 2,007,328</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Due to other funds	<u>\$ 9,965</u>	<u>\$ 83,846</u>	<u>\$ -</u>	<u>\$ 13,163</u>	<u>\$ -</u>	<u>\$ 106,974</u>
FUND BALANCES						
Restricted						
Open space	-	321,028	-	-	-	321,028
Fire protection	-	-	-	-	123,590	123,590
Unassigned	<u>1,419,928</u>	<u>-</u>	<u>44,473</u>	<u>(8,665)</u>	<u>-</u>	<u>1,455,736</u>
TOTAL FUND BALANCES	<u>\$ 1,419,928</u>	<u>\$ 321,028</u>	<u>\$ 44,473</u>	<u>\$ (8,665)</u>	<u>\$ 123,590</u>	<u>\$ 1,900,354</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES—MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

Appendix A-19-a

	General Fund	Open Space Fund
REVENUES		
Taxes		
Real estate	\$ 931,613	\$ -
Per capita	663	-
Real estate transfer	174,179	-
Earned income	909,082	453,839
Local service	37,419	-
Licenses and permits	229,164	-
Fines and forfeits	23,683	-
Interest and rents	157,944	7,902
Intergovernmental	187,179	-
Charges for services	273,558	-
Contributions from private sector	74,267	-
Refund of prior year expenses	178,614	-
TOTAL REVENUES	<u>3,177,365</u>	<u>461,741</u>
EXPENDITURES		
Current		
General government	695,871	421
Public safety	1,701,615	-
Public works, highways and streets	466,873	-
Culture and recreation	64,822	-
Debt service		
Principal	31,000	185,000
Interest and other charges	6,553	63,353
Refunds of prior year revenues	28,951	-
Other	145,672	-
TOTAL EXPENDITURES	<u>3,141,357</u>	<u>248,774</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>36,008</u>	<u>212,967</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	605,159	-
Transfers out	(7,429)	(213,460)
Sale of general capital assets	4,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>601,730</u>	<u>(213,460)</u>
NET CHANGE IN FUND BALANCES	637,738	(493)
FUND BALANCES AT BEGINNING OF YEAR	<u>782,190</u>	<u>321,521</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,419,928</u>	<u>\$ 321,028</u>

See accompanying notes to the basic financial statements.

Appendix A-19-a

<u>Capital Projects Fund</u>	<u>Highway Aid Fund</u>	<u>Fire Protection Fund</u>	<u>Total Governmental Funds</u>
\$ 2,095	\$ -	\$ 163,089	\$ 1,096,797
-	-	-	663
-	-	-	174,179
-	-	-	1,362,921
-	-	-	37,419
-	-	-	229,164
-	-	-	23,683
2,614	1,744	1,240	171,444
-	210,333	-	397,512
-	-	-	273,558
-	-	-	74,267
-	-	-	178,614
<u>4,709</u>	<u>212,077</u>	<u>164,329</u>	<u>4,020,221</u>
-	-	-	696,292
-	-	93,447	1,795,062
-	161,041	-	627,914
-	-	-	64,822
-	63,020	-	279,020
-	9,201	-	79,107
639	-	3,688	33,278
-	-	-	145,672
<u>639</u>	<u>233,262</u>	<u>97,135</u>	<u>3,721,167</u>
<u>4,070</u>	<u>(21,185)</u>	<u>67,194</u>	<u>299,054</u>
30	7,399	-	612,588
(121,699)	-	-	(342,588)
-	-	-	4,000
<u>(121,669)</u>	<u>7,399</u>	<u>-</u>	<u>274,000</u>
(117,599)	(13,786)	67,194	573,054
162,072	5,121	56,396	1,327,300
<u>\$ 44,473</u>	<u>\$ (8,665)</u>	<u>\$ 123,590</u>	<u>\$ 1,900,354</u>

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF NET POSITION--MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	<u>Sewer Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 881,403
CURRENT LIABILITIES	
Due to other funds	<u>8,169</u>
NET POSITION	
Unrestricted	<u>\$ 873,234</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION--MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services, sewer charges	\$ 1,362,072
Connection fees	26,512
TOTAL OPERATING REVENUES	<u>1,388,584</u>
OPERATING EXPENSES	
Wastewater collections and treatment	<u>425,021</u>
OPERATING INCOME	<u>963,563</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	10,727
Intergovernmental	78,810
Debt service	
Principal expense	(594,464)
Interest expense	(163,230)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(668,157)</u>
INCOME BEFORE INTERFUND TRANSFERS	295,406
INTERFUND TRANSFERS	
Transfers out	<u>(270,000)</u>
CHANGE IN NET POSITION	25,406
NET POSITION AT BEGINNING OF YEAR	<u>847,828</u>
NET POSITION AT END OF YEAR	<u>\$ 873,234</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Police Pension Fund</u>	<u>Employees' Pension Fund</u>	<u>Escrow Fund</u>
ASSETS			
Cash	\$ 51,650	\$ 22,976	\$ 50,978
Investments	<u>2,567,014</u>	<u>843,449</u>	<u>-</u>
TOTAL ASSETS	<u>2,618,664</u>	<u>866,425</u>	<u>\$ 50,978</u>
LIABILITIES			
Escrows payable	-	-	\$ 50,726
Due to Township	<u>-</u>	<u>-</u>	<u>252</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>\$ 50,978</u>
NET POSITION			
Held in trust for pension benefits and other purposes	<u>\$ 2,618,664</u>	<u>\$ 866,425</u>	

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Police Pension Fund</u>	<u>Employees' Pension Fund</u>
ADDITIONS		
Contributions		
Employer and Commonwealth	\$ 230,509	\$ 57,968
Employee	<u>38,748</u>	<u>10,235</u>
TOTAL CONTRIBUTIONS	<u>269,257</u>	<u>68,203</u>
Investment earnings		
Decrease in fair market value of assets	(147,975)	(44,777)
Interest and dividends	67,029	21,698
Investment expense	<u>(37,214)</u>	<u>(11,993)</u>
TOTAL INVESTMENT EARNINGS	<u>(118,160)</u>	<u>(35,072)</u>
TOTAL ADDITIONS	<u>151,097</u>	<u>33,131</u>
DEDUCTIONS		
Administrative	2,500	2,500
Payments to participants	<u>249,669</u>	<u>78,444</u>
CHANGE IN NET POSITION	(101,072)	(47,813)
NET POSITION AT BEGINNING OF YEAR	<u>2,719,736</u>	<u>914,238</u>
NET POSITION AT END OF YEAR	<u>\$ 2,618,664</u>	<u>\$ 866,425</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE A - NATURE OF ACTIVITY

Upper Pottsgrove Township, Montgomery County, Pennsylvania (the Township), founded in 1889, has an approximate population of 5,300, based on a 2010 census report, living within an area of 5 square miles. The Township is in the southeastern portion of the Commonwealth of Pennsylvania and is located in Montgomery County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in generally accepted accounting principles.

Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except for the following modifications:

- *Interfund receivables and payables* that arise from transactions and events involving cash or cash equivalents are recognized.
- *Liabilities for cash (or cash equivalents) held in escrow* are recognized.

Financial Reporting Entity

In determining the financial reporting entity, the Township complies with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. In reviewing the criteria for inclusion in the financial statements, the Township considered the following:

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township is a Pennsylvania First Class Township which operates under a Board of Commissioners form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or entities which should be presented with the Township.

Basis of Presentation

Original and supplemental budgets are included under the heading of budget in the financial statements. Appropriations lapse at year-end.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues and expenditures. Funds are organized into two major categories: governmental and enterprise. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

Total assets, liabilities, revenues, or expenditures of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and total assets, liabilities, revenues or expenditures of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Township may also report as a major fund any fund it believes to be of particular importance to the financial statement users.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The funds of the financial reporting entity are described below:

Governmental Funds

The Township reports the following Governmental Funds:

The *General Fund* is the primary operating fund of the Township and is always classified as a major fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

The *Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The reporting entity includes the following special revenue funds that are reported as major funds:

- *The State Liquid Fuels Highway Aid Fund* is used to account for the proceeds from the State Motor License Fund. Under the Act of June 1, 1956, P. L. 1944, No. 145, this Fund must be kept separate from all other funds and no other funds shall be commingled with this Fund. Expenditures are legally restricted to expenditures for highway purposes in accordance with Department of Transportation regulations. County liquid fuels tax payments to the local government are not accounted for in this Fund.
- *Fire Protection Fund* is used to account for revenues generated from the .6 mill assessment received from Township residents for the purpose of providing support for the Township's volunteer fire department

The *Capital Projects Funds* are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets, including those financed by general obligation bond proceeds. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. The reporting entity includes the following capital projects funds that are reported as major funds:

- *The Open Space Fund* is used to account for the accumulation of resources to be utilized for the purpose of acquiring and preserving open space within the Township's boundaries.
- *The Capital Projects Fund* is used to account for funds that will be used for capital projects.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

The Township reports the following major Proprietary Funds:

The Enterprise Fund is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund, which is reported as a major fund:

- *The Sewer Fund* is used to account for the operation of the sewer collection system, which is operated as a public utility and is not included as a regular function in the General Fund.

Fiduciary Fund

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following are the Township's fiduciary fund types:

- *The Police Pension Fund* is used to account for the activities of the Police Pension Plan, which accumulates resources for pension benefit payments to qualified employees.
- *The Employees' Pension Fund* is used to account for the activities of the Employee Pension Plan, which accumulates resources for pension benefit payments to qualified employees.
- *The Escrow Fund* is used to account for funds received from individuals and private organizations for specific uses within the Township's boundaries.

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the primary government financial statements.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Cash Basis

The Township's policy is to prepare its financial statements on a modified cash basis under which only revenues collected and expenditures paid and intergovernmental due to and due from receivables and payables are recorded. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred. Consequently, other receivables, other payables, inventories, long-lived assets, accrued income and expenses, and amortization and depreciation which may be material in amount, are not reflected in the accompanying financial statements, which are not intended to present the financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. Governmental fund type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary funds and nonexpendable trust funds are accounted for on a cost of services or "capital maintenance" measurement focus. Their reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in equity. All Proprietary Funds are accounted for on a flow of economic resources measurement focus. The statement of revenues, expenses and changes in net position--modified cash basis presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

ASSET AND LIABILITY ACCOUNTING POLICY DISCLOSURES

Cash

The Township considers all cash accounts that are not subject to withdrawal restrictions or penalties to be cash.

The Township pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable.

For the purpose of financial reporting, cash includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Board of Commissioners is authorized by statutes to invest its funds as defined in the Township Code. Statutes authorize the Township to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the Township may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value.

Due To and From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Purchased capital assets are recorded as expenditures in the governmental fund types. Proprietary fund type capital assets are recorded as expenditures in the fund in which they are utilized. Infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are recorded as expenditures in the fund types expending the funds.

Long-Term Debt

Debt proceeds from issuance of long-term debt are reported as other financing sources, and the payment of principal and interest is reported as expenditures in the fund financial statements and government wide statements. Debt service expenditures are recognized in the period paid.

Compensated Absences

Compensated absences for vacation and sick leave are recorded when paid.

Equity

Government-Wide Statements

Net position is classified into the following two components:

Restricted - This component of net position consists of constraints placed on net position use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township's policy is to first use restricted net position prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental Fund Financial Statements

Fund balances are classified into specifically designed classifications as follows:

Nonspendable - This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally required to be maintained intact.

Restricted - This classification consists of amounts that are restricted to specific purposes either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation. The restriction is binding unless removed with the consent of the resource provider.

Committed - This classification consists of amounts used for specific purposes imposed by formal action of the Township's highest level of decision-making authority. The commitment is binding unless removed in the same manner imposed. Formal action must occur prior to fiscal year-end; however, the amount may be determined subsequent to year-end.

Assigned - This classification consists of amounts constrained by the Township's intent to be used for specific purposes that are neither restricted nor committed.

Unassigned - This classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance.

REVENUE AND EXPENDITURE POLICY DISCLOSURES

Program Revenues

All revenues are recognized when received.

In the statement of activities, revenues that are derived directly from each activity or from parties outside the Township's taxpayers are program revenues. Amounts reported as program revenues include (a) charges to customers or applicants for goods and services or privileges provided, (b) operating grants and contributions and (c) capital grants and contributions, including special assessments.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenditures from nonoperating items. Operating revenues and expenditures generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are sewer usage charges. Operating expenditures of the sewer fund include the cost of the services. All revenues and expenditures not meeting this definition are reported as nonoperating revenues and expenditures. The principal nonoperating revenues and expenditures of the Township's proprietary fund are interest income and transfers in and transfers out.

Property Taxes

The Township is permitted by state law to levy taxes up to 30 mills of assessed valuation for general purposes. State law also permits additional millage to be levied for specific purposes as defined in the law. The millage rate levied by the Township for 2018 was 4.0 mills, consisting of 3.40 mills for general obligations and .6 mills for fire protection, as established by the Board of Commissioners. Current tax collections for the Township were approximately 99% of the total tax levy.

The Township's real estate taxes are based on assessed values established by the County's Board of Assessments. The taxes are collected by an elected local tax collector. Real estate taxes attach an enforceable lien on property when levied on March 1. A discount of 2% is applied to payments made prior to April 30. A penalty of 10% is added to the face amount of taxes paid after June 30. The Montgomery County Tax Claim Bureau collects delinquent real estate taxes on behalf of itself and other taxing authorities. Return of unpaid real estate taxes to the Montgomery County Tax Claim Bureau is made by January 15 of the subsequent year.

Intergovernmental Revenues

Intergovernmental revenues received from the Commonwealth of Pennsylvania; federal agencies and local governmental units generally to fund specific programs are recognized when received.

Expenditures/Expenses

Expenditures and expenses are recognized when paid.

Internal and Interfund Balances and Activities

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

Interfund Services - Sales or purchases of goods and services between funds are reported as revenues and expenditures.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Reimbursements - Repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures in the respective funds.

Interfund Transfers - Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

NOTE C - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Provisions

The Township had no material violations of finance-related legal and contractual provisions.

Excess of Expenditures over Appropriations in Individual Funds

No individual fund, which was budgeted as required by the Commonwealth of Pennsylvania, contained an excess of expenditures over appropriations that was not covered by the cash balance at December 31, 2018, and the cash received for the year ended December 31, 2018. Expenditures exceeded appropriations in the following funds:

Open Space Fund	\$ 108,071
Capital Projects Fund	122,338
Sewer Fund	86,995

Expenditures exceed appropriations in the Open Space Fund due to an unbudgeted transfer of current year .25% Earned Income Tax revenue to the General Fund in the amount of \$113,460.

Expenditures exceeded appropriations in the Capital Projects Fund due to the Township not budgeting any expenditures for 2018. However, a transfer was made in the amount of \$121,699 to the General Fund to reimburse engineering expenses related to the proposed public works building.

Expenditures exceeded appropriations in the Sewer Fund due to an unbudgeted current year transfer to the General Fund related to prior year operating expense allocations that were erroneously not transferred in prior years.

NOTE D - DEPOSITS AND INVESTMENTS

The Township's available cash is invested in demand deposit accounts and money market accounts. The carrying amount of cash and cash equivalents at December 31, 2018, consist of the following:

Cash deposits	\$ <u>2,898,940</u>
Reconciliation to statement of net assets/balance sheet:	
Governmental	\$ 1,891,933
Business-type	881,403
Fiduciary	<u>125,604</u>
	\$ <u>2,898,940</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, the Township's deposits may not be returned. The Pennsylvania Local Government Code and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: Pennsylvania Act 72 requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies.

At December 31, 2018, the carrying amount of the Township's bank deposits was \$2,898,940 and the corresponding bank balances were \$2,986,410, of which \$250,000 was covered by the Federal Depository Insurance Corporation and \$74,626 was covered by the Securities Investor Protection Corporation. The remaining \$2,661,784 of deposits was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

Investments

As of December 31, 2018, the Township had the following investments in the Fiduciary Funds:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>One To Five Years</u>	<u>Six to Ten Years</u>
Mutual funds	\$ 585,507	\$ 585,507	\$ -	\$ -
Common stocks	1,454,099	1,454,099	-	-
Fixed income	743,249	451,729	256,529	34,991
Government securities	<u>627,608</u>	<u>63,376</u>	<u>208,298</u>	<u>144,539</u>
Total	\$ <u>3,410,463</u>	\$ <u>2,554,711</u>	\$ <u>464,827</u>	\$ <u>179,530</u>

Fair Value Measurement - The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2018:

Investments in mutual funds of \$585,507, common stocks of \$1,454,099, fixed income investments of \$743,249 and Government securities of \$627,608 are valued using quoted market prices (Level 1 inputs).

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Township limits the type of investments permitted as defined in the Township Code. Permitted investments are defined in Note B. When making investments, the Township can combine monies from more than one fund under the Township's control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township 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, 2018, no investments are held by the investment's counterparties, not in the name of the Township.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE E - LONG-TERM DEBT

At December 31, 2018, long-term debt consists of the following:

	Balance Outstanding December 31, 2017	Additions	Payments	Balance Outstanding December 31, 2018
General Obligation Note, Series B of 2005, initial issue \$1,376,000, interest rate equal to the weekly Municipal Swap Index as of the audit date, monthly interest only payments through June 2018 and annual principal payments beginning June 2018 through June 2028	\$ 1,376,000	\$ -	\$ (233,000)	\$ 1,143,000
PENNVEST Guaranteed Revenue Note due in monthly payments of \$26,743, including interest at 3.180% to June 2029; an additional interest only during the construction period at a rate of 2.539%, not to exceed three years from the settlement	2,377,353	-	(152,464)	2,224,889
General Obligation Bonds, Series of 2012, initial issue \$3,090,000, interest rate ranging from 1.000% to 3.350% per annum, through November 2031	2,120,000	-	(215,000)	1,905,000
General Obligation Bonds, Series of 2013, initial issue \$4,505,000, interest rate ranging from 2.000% to 3.375% per annum, through November 2032	2,840,000	-	(210,000)	2,630,000
General Obligation Note of 2014, initial issue \$500,000, interest at a rate of 2.35 per annum for a period of 5 years, followed by a variable rate at 60% of Wall Street Journal Prime Rate, with the floating rate capped at 4.95%, through September 2024	349,850	-	(48,435)	301,415
	<u>\$ 9,063,203</u>	<u>\$ -</u>	<u>\$ (858,899)</u>	<u>\$ 8,204,304</u>

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE E - LONG-TERM DEBT (Continued)

Total interest expense for the year ended December 31, 2018, was \$240,944

Aggregate maturities required on long-term debt at December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 884,645	\$ 215,336	\$ 1,099,981
2020	908,400	197,133	1,105,533
2021	932,150	172,616	1,104,766
2022	739,138	156,240	895,378
2023	763,372	130,500	893,872
2024 to 2028	3,080,575	370,631	3,451,206
2029 to 2032	896,024	47,494	943,518
	<u>\$ 8,204,304</u>	<u>\$ 1,289,950</u>	<u>\$ 9,494,254</u>

The current interest rate payable for variable interest rate debt was utilized to calculate future debt service requirements.

Bond principal and interest payments are paid from the General Fund, Open Space Fund, Highway Aid Fund and Sewer Fund.

Substantially all the Township's assets are pledged as collateral for the outstanding debt.

NOTE F - INTERFUND TRANSFERS AND BALANCES

	<u>Transfers In/From Other Funds</u>	<u>Transfers Out/To Other Funds</u>
Major Funds		
General Fund	\$ 605,159	\$ 7,429
Open Space Fund	-	213,460
Capital Projects Fund	30	121,699
Highway Aid Fund	<u>7,399</u>	<u>-</u>
Proprietary Fund		
Sewer Fund	<u>-</u>	<u>270,000</u>
	<u>\$ 612,588</u>	<u>\$ 612,588</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE F - INTERFUND TRANSFERS AND BALANCES (Continued)

The composition of interfund balances as of December 31, 2018, is as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
General Fund	\$ 9,965	\$ 112,609
Open Space Fund	83,846	-
Highway Aid Fund	13,163	-
Fire Protection Fund	-	2,534
Sewer Fund	<u>8,169</u>	<u>-</u>
	<u>\$ 115,143</u>	<u>\$ 115,143</u>

NOTE G - FUND BALANCE

	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Totals</u>
Reported in				
General Fund	\$ -	\$ -	\$ 1,419,928	\$ 1,419,928
Open Space Fund				
Open space	<u>321,028</u>	<u>-</u>	<u>-</u>	<u>321,028</u>
Other Governmental Funds				
Capital Projects Fund	-	-	44,473	44,473
Highway Aid Fund				
Public works, highways and streets	-	-	(8,665)	(8,665)
Fire Protection Fund	<u>-</u>	<u>123,590</u>	<u>-</u>	<u>123,590</u>
	<u>-</u>	<u>123,590</u>	<u>(8,665)</u>	<u>159,398</u>
	<u>\$ 321,028</u>	<u>\$ 123,590</u>	<u>\$ 1,411,263</u>	<u>\$ 1,900,354</u>

Fund Balance Policy

The Township establishes and maintains reservations of fund balance in accordance with its fund balance policy. This Policy applies to the Township's General Fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned and unassigned amounts. The Township does not have any nonspendable or assigned fund balance.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs or enhance the financial position of the Township in accordance with policies established by the Board of Commissioners.

Spending Policy

The Township's policy is to first use restricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE G - FUND BALANCE (Continued)

The Township's policy is to use unrestricted fund balance in the following order, committed, assigned and unassigned, when an expenditure is incurred for purposes for which each of these fund balance classifications is available.

Minimum Fund Balance Policy

The Township has not formally adopted a minimum fund balance policy.

Committed Fund Balance

The Board of Commissioners is the Township's highest level of decision making authority. The Township has not formally adopted a policy as to the formal action that is required to be taken to establish, modify or rescind a fund balance commitment.

Assigned Fund Balance

The Township has not formally adopted a policy regarding the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body pursuant to which that authorization is given.

Reservations of Fund Balance

Restricted - Open Space Fund

The Township's restricted fund balance in the Open Space Fund consists of earned income tax revenue generated by the enactment of a resolution approving the placement of a referendum on the November 2006 election ballot. The earned income tax was raised .25% to fund open space acquisitions within the Township.

Restricted - Fire Protection Fund

The Township's restricted fund balance in the Fire Protection Fund consists of real estate tax revenues as set forth in the annual budget and any amendments thereto to provide funds for support of the volunteer fire department. Revenues are generated from the .6 mill assessment received from Township residents.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE G - FUND BALANCE (Continued)

Disbursement of Fund Balance Reserves

No formal policy has been adopted by the Township regarding disbursement of funds within the fund balance reserves, however, disbursement is approved by the Board of Commissioners by inclusion in the approved annual budget and amendments thereto.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process and the amounts of nonspendable, restricted, committed, assigned and the minimum level of unassigned fund balance shall be determined during this process.

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Police Pension Plan investments are carried at fair value as reported by the investment managers.

Plan Description

Plan Administration - The Township administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all police officers 35 hours per week.

Management of the Police Pension Plan is vested in the Board of Commissioners, which consists of five elected members. The Board is responsible for managing, investing and monitoring the Township's Police Pension Fund.

Plan Membership - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>10</u>
	<u>15</u>

Benefits Provided - The Township Police Pension Plan is a single-employer Public Employee Retirement System (PERS) established by the Township to provide pension benefits for each person in the employ of the Township Police Department whose customary employment is not for fewer than five months per year.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Plan provisions are established by Township ordinance. The plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 50 and completion of 25 years of service in the form of a joint and 50% survivor annuity. The normal retirement benefit is 50% of average compensation multiplied by the accrued benefit adjustment. A member is eligible for a termination benefit which vests at 100% after 12 years in the form of a joint and 50% survivor annuity with income deferred until the normal retirement date. The amount is the accrued benefit on the date of termination multiplied by the vesting percentage. A member is eligible for a disability benefit if the participant is disabled as a result of performing police work in the form of monthly income payable until death or recovery. The amount is 50% of participant's salary on the date disability occurred, offset by Social Security benefits. A member is eligible for a pre-retirement death benefit if they are a fully vested participants with eligible spouse of dependent children whose death does not arise out of or in the course of employment. The benefit is in the form of a monthly annuity deferred to the participants normal retirement date payable until the later of the date of the date of the eligible spouse's death or the date there is no longer a surviving dependent child of the participant. The benefit amount is 50% of the pension the member would have been receiving had they been retired at the time of death. A member is eligible for a post-retirement death benefit if they are a participant with an eligible spouse or dependent child whose death does not arise out of or in the course of employment. The benefit is in the form of a monthly annuity payable until the later of the date of the eligible spouse's death or the date there is no longer a surviving dependent child of the participant. The benefit amount is 50% of the pension which was payable to the participant. A member is eligible for a lump sum death benefit if they have not met the requirements for the survivor annuity death benefit. The benefit is in the form of a lump sum payment to a beneficiary equal to the member's required contribution account on the date of death.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Members currently contribute 5% of their compensation to the fund. Contributions are subject to collective bargaining.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that maximizes the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investment in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent. The following was the Board's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	2.0%
Domestic equity	
Large cap	59.0%
Mid cap	0.0%
Small cap	0.0%
International equity	0.0%
Fixed income	39.0%
Balanced/blend	<u>0.0%</u>
	<u>100%</u>

Concentrations - There are no investments in any one issuer that exceed 5% of the government's total investments.

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -4.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2018, were as follows:

Total pension liability	\$ 3,932,138
Plan fiduciary net position	<u>(2,618,664)</u>
NET PENSION LIABILITY	\$ <u>1,313,474</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>66.60%</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

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

Inflation	3%
Salary increases	3.5% annual increase
Investment rate of return	6.5%

Mortality rates were based on the RP-2000 Blue Collar Mortality Table projected to 2017 using Scale AA.

Due to the size of the plan, there have 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, 2018 (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>
Cash	0.75%
Domestic equity	
Large cap	6.44%
Mid cap	7.22%
Small cap	7.22%
International equity	7.26%
Fixed income	3.62%

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that 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.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
BALANCES AT DECEMBER 31, 2017	\$ 3,798,926	\$ 2,719,736	\$ 1,079,190
Changes for the year			
Service cost	135,272	-	135,272
Interest	247,609	-	247,609
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	230,509	(230,509)
Member	-	38,748	(38,748)
Net investment income	-	(118,160)	118,160
Benefit payments	(249,669)	(249,669)	-
Administrative expense	-	(2,500)	2,500
NET CHANGES	<u>133,212</u>	<u>(101,072)</u>	<u>234,284</u>
BALANCE AT DECEMBER 31, 2018	<u>\$ 3,932,138</u>	<u>\$ 2,618,664</u>	<u>\$ 1,313,474</u>

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	<u>\$ 1,902,242</u>	<u>\$ 1,313,474</u>	<u>\$ 827,624</u>

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2018, the Township recognized pension expense of \$336,162. At December 31, 2018, deferred outflows or resources and deferred inflows of resources related to pensions were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 245,625	\$ -
Changes in assumptions	163,019	-
Net difference between projected and actual earnings on pension plan investments	<u>223,438</u>	<u>-</u>
	<u>\$ 632,082</u>	<u>\$ -</u>

Deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

<u>Year Ending December 31,</u>	
2019	\$ 163,121
2020	105,227
2021	91,333
2022	123,217
2023	64,865
Thereafter	84,319

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Non-Uniformed Pension Plan investments are carried at fair value as reported by the investment managers.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Plan Description

Plan Administration - The Township administers the Non-Uniformed Pension Plan--a single-employer plan established by the Township to provide pension benefits for each person in the employ of the Township following the attainment of age 21 and the completion of 1820 hours in 12 consecutive months of service.

Management of the Non-Uniformed Pension Plan is vested in the Board of Commissioners, which consists of five elected members. The Board is responsible for managing, investing and monitoring the Township's Non-Uniformed Pension Plan.

Plan Membership - At December 31, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	6
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>6</u>
	<u>14</u>

Benefits Provided - Plan provisions are established by Township ordinance. The plan provides retirement, termination and death benefits. A member is eligible for normal retirement after attainment of age 65. Benefits are payable in the form of a monthly annuity payable for life for non-married participants, and a joint and 50% survivor annuity for participants who are married at retirement. The benefit amount will be 1.10% of average compensation multiplied by service to a maximum of 35 years of service. A member is eligible for an early retirement benefit at the age of 55 upon completion of six years of service. Benefits are payable in the form of a monthly annuity payable for life for non-married participants, and a joint and 50% survivor annuity for participants who are married at retirement. The benefit amount will be the accrued benefit amount on the early retirement date reduced by 6 2/3% for each year up to five years and 3 1/3% for each year between five and ten that the early retirement date precedes the normal retirement date. A member is eligible for a termination benefit equal to 10% after two years of vesting service, increasing by 20% for each year thereafter, not to exceed 100%. Benefits are in the same form as normal retirement benefits, with income deferred until the normal retirement date. The amount will be the accrued benefit on the date of termination multiplied by the vesting percentage. A member is eligible for a survivor annuity death benefit if the qualified married participant is fully or partially vested in an accrued benefit. The benefit will be in the form of immediate monthly annuity payable to the spouse. If death occurs, the amount paid to the surviving spouse equals the amount that would have been paid had the participant terminated employment on the date of death and survived to his or her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, and died the next day.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Employees are required to contribute 2% of their aggregate earnings to the fund. Contributions are subject to collective bargaining.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Commissioners. It is the policy of the Board to pursue an investment strategy that maximizes the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investment in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent. The following was the Board's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	3.0%
Domestic equity	
Large cap	58.0%
Mid cap	0.0%
Small cap	0.0%
International equity	0.0%
Fixed income	39.0%
Balanced/blend	0.0%
	<u>100%</u>

Concentrations - There are no investments in any one issuer that exceed 5% of the government's total investments.

Rate of Return - For the year ended December 31, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -3.86%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2018, were as follows:

Total pension liability	\$ 1,211,940
Plan fiduciary net position	<u>(866,425)</u>
NET PENSION LIABILITY	\$ <u>345,515</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71.49%</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

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

Inflation	3%
Salary increases	3.5% annual increase
Investment rate of return	6.5%

Mortality rates were based on the RP-2000 Mortality Table projected to 2017 using Scale AA.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 pension plan's target asset allocation as of December 31, 2018 (see the pension plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	0.75%
Domestic equity	
Large cap	6.44%
Mid cap	7.22%
Small cap	7.22%
International equity	7.26%
Fixed income	3.62%

Discount Rate - The discount rate is based on the long-term expected rate of return on pension plan investments that 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.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
BALANCES AT DECEMBER 31, 2017	\$ 1,183,119	\$ 914,238	\$ 268,881
Changes for the year			
Service cost	30,903	-	30,903
Interest	76,362	-	76,362
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	57,968	(57,968)
Member	-	10,235	(10,235)
Net investment income	-	(35,072)	35,072
Benefit payments	(78,444)	(78,444)	-
Administrative expense	-	(2,500)	2,500
NET CHANGES	<u>28,821</u>	<u>(47,813)</u>	<u>76,634</u>
BALANCES AT DECEMBER 31, 2018	\$ <u>1,211,940</u>	\$ <u>866,425</u>	\$ <u>345,515</u>

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ <u>485,672</u>	\$ <u>345,515</u>	\$ <u>227,122</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2018, the Township recognized pension expense of \$80,883. At December 31, 2018, deferred outflows of resources and deferred inflows of resources related to pensions were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 39,676
Changes in assumptions	98,692	-
Net difference between projected and actual earnings on pension plan investments	<u>65,419</u>	<u>-</u>
	<u>\$ 164,111</u>	<u>\$ 39,676</u>

Deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

<u>Year Ending December 31,</u>	
2019	\$ 39,422
2020	22,076
2021	19,519
2022	30,038
2023	11,409
Thereafter	1,971

NOTE J - CELLULAR TOWER LEASE AGREEMENT

American Tower Lease Agreement

Effective May 31, 2000, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$12,000 as annual rent in the initial year and the rent shall increase annually by 3% of the preceding year's rent. The lessee may sublease or license portions of the space to a third-party provider of communications services. Upon sublease, the lessee will pay rent plus 25% of payments received by the lessee for rights of occupancy.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE J - CELLULAR TOWER LEASE AGREEMENT (Continued)

In addition, in connection with this lease agreement, the Township entered into an exclusive easement agreement with a third party to grant easement rights to a portion of property for the use of an exclusive communications easement related to the operation of a wireless communications site. The Township received an up-front payment in the amount of \$75,000 in 2011 from a third party for the rights to extension of the lease agreement upon expiration of the current lease agreement. At the conclusion of the current lease agreement, the third party will possess the easement and provide for a 50/50 share of all revenue generated from the cellular tower.

Clear Wireless LLC Lease Agreement

Effective February 17, 2010, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$1,900 monthly rent, of which the Township's share of revenue is 40%. Rent shall increase annually by 3% of the preceding year's rent. The lessee may sublease or license portions of the space to a third-party provider of communications services.

MetroPCS Tower Lease Agreement

Effective August 27, 2010, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$1,800 monthly rent, of which the Township's share of revenue is 40%. Upon renewal, rent shall be adjusted as of the fifth anniversary of the commencement date of the term and of any five-year renewal term by an increase of 15% of the rent paid during the previous term or five-year renewal term. The lessee may sublease or license portions of the space to a third-party provider of communications services.

NOTE K - CAPITAL LEASES

In May 2011, the Township entered into a lease agreement for a fire truck. The lease term is 120 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$11,583 in principal and interest in 2018. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 10,470	\$ 1,113	\$ 11,583
2020	10,708	875	11,583
2021	10,952	631	11,583
2022	11,202	381	11,583
2023	10,828	126	10,954
	<u>\$ 54,160</u>	<u>\$ 3,126</u>	<u>\$ 57,286</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE K - CAPITAL LEASES (Continued)

In July 2015, the Township entered into a lease agreement for a police interceptor. The lease term is 60 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,942 in principal and interest in 2018. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 7,729	\$ 213	\$ 7,942
2020	<u>3,936</u>	<u>36</u>	<u>3,972</u>
	<u>\$ 11,665</u>	<u>\$ 249</u>	<u>\$ 11,914</u>

In September 2015, the Township entered into a lease agreement for a police interceptor. The lease term is 60 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,950 in principal and interest in 2018. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 7,732	\$ 218	\$ 7,950
2020	<u>3,939</u>	<u>37</u>	<u>3,976</u>
	<u>\$ 11,671</u>	<u>\$ 255</u>	<u>\$ 11,926</u>

In June 2016, the Township entered into a lease agreement for a police interceptor. The lease term is five years, with payments due quarterly. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,550 in principal and interest in 2018. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 7,202	\$ 348	\$ 7,550
2020	7,386	164	7,550
2021	<u>1,877</u>	<u>12</u>	<u>1,889</u>
	<u>\$ 16,465</u>	<u>\$ 524</u>	<u>\$ 16,989</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE K - CAPITAL LEASES (Continued)

In December 2016, the Township entered into a lease agreement for a Ford F550 Dump Truck with a snow plow. The lease term is five years, with payments due quarterly. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$15,977 in principal and interest in 2018. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 14,985	\$ 992	\$ 15,977
2020	15,395	582	15,977
2021	<u>11,804</u>	<u>160</u>	<u>11,964</u>
	<u>\$ 42,184</u>	<u>\$ 1,734</u>	<u>\$ 43,918</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Contingencies

Pending Litigation

In the normal course of business, the Township is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings, except as noted in Note M below, would not have a material adverse effect on the financial statements.

Concentration of Labor

The Township entered into a collective bargaining agreement with the police officers, effective January 1, 2019 through December 31, 2021. Of the Township's total workforce, 50% is covered by this agreement with the police officers.

NOTE M - SUBSEQUENT EVENT

In February 2019, Upper Pottsgrove Township, reached a settlement on a lawsuit regarding the completion and acceptance of a dedicated roadway. The Township will pay \$20,000 to the plaintiff in lieu of completion and acceptance of the dedicated roadway

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF UPPER POTTS GROVE
BUDGETARY COMPARISON SCHEDULE--
MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Real estate	\$ 932,541	\$ 932,541	\$ 931,613	\$ (928)
Per capita	-	-	663	663
Real estate transfer	140,000	140,000	174,179	34,179
Earned income	750,000	750,000	909,082	159,082
Local service	26,500	26,500	37,419	10,919
Licenses and permits	147,750	147,750	229,164	81,414
Fines and forfeits	28,500	28,500	23,683	(4,817)
Interest and rents	125,000	125,000	157,944	32,944
Intergovernmental	174,595	174,595	187,179	12,584
Charges for services	146,033	146,033	273,558	127,525
Contributions from private sector	67,997	67,997	74,267	6,270
Refund of prior year expenses	18,000	18,000	178,614	160,614
TOTAL REVENUES	2,556,916	2,556,916	3,177,365	620,449
EXPENDITURES				
Current				
General government	719,933	719,933	695,871	24,062
Public safety	1,695,373	1,695,373	1,701,615	(6,242)
Public works, highways and streets	678,542	678,542	466,873	211,669
Culture and recreation	107,300	107,300	64,822	42,478
Debt service				
Principal	46,600	46,600	31,000	15,600
Interest and other charges	6,948	6,948	6,553	395
Refunds of prior year revenues	-	-	28,951	(28,951)
Other	151,200	151,200	145,672	5,528
TOTAL EXPENDITURES	3,405,896	3,405,896	3,141,357	264,539
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(848,980)	(848,980)	36,008	884,988
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	-	-
Transfers in	220,000	220,000	605,159	385,159
Transfers out	-	-	(7,429)	(7,429)
Sale of general capital assets	-	-	4,000	4,000
TOTAL OTHER FINANCING SOURCES (USES)	220,000	220,000	601,730	381,730
NET CHANGE IN FUND BALANCE	\$ (628,980)	\$ (628,980)	\$ 637,738	\$ 1,266,718

See accompanying note to the budgetary comparison schedule--modified cash basis.

TOWNSHIP OF UPPER POTTSGROVE
NOTE TO THE BUDGETARY COMPARISON SCHEDULE--
MODIFIED CASH BASIS
DECEMBER 31, 2018

NOTE A - BUDGET MATTERS

The Board of Commissioners annually adopts the budget for the General, Open Space, Highway Aid, Fire Protection and Sewer Funds. Budgetary control is legally maintained at the fund level.

The First Class Township Code provides for the modification of the budget and supplemental appropriations and transfers.

Appropriations, except open project appropriations, encumbrances and unexpended grant appropriations, lapse at the end of each fiscal year.

The budget is prepared on the same modified cash basis of accounting as applied to the governmental funds in the basic financial statements.

TOWNSHIP OF UPPER POTTSGROVE
SCHEDULES OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 135,272	\$ 130,698	\$ 119,704	\$ 115,656	\$ 86,196
Interest	247,609	234,435	199,906	184,794	148,812
Differences between expected and actual experience	-	193,260	-	163,019	-
Changes of assumptions	-	87,538	-	163,243	-
Benefit payments	(249,669)	(84,417)	(75,931)	(68,081)	(6,248)
NET CHANGE IN TOTAL PENSION LIABILITY	133,212	561,514	243,679	558,631	228,760
Total pension liability, beginning	3,798,926	3,237,412	2,993,733	2,435,102	2,206,342
TOTAL PENSION LIABILITY, ENDING (a)	\$ 3,932,138	\$ 3,798,926	\$ 3,237,412	\$ 2,993,733	\$ 2,435,102
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 230,509	\$ 107,461	\$ 122,329	\$ 82,910	\$ 77,050
Member	38,748	36,080	30,345	32,649	33,994
Net investment income	(118,160)	312,238	73,803	(140,302)	95,013
Benefit payments, including refunds of member contributions	(249,669)	(84,417)	(75,931)	(68,081)	(6,248)
Administrative expense	(2,500)	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(101,072)	371,362	150,546	(92,824)	199,809
Plan fiduciary net position, beginning	2,719,736	2,348,374	2,197,828	2,290,652	2,090,843
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 2,618,664	\$ 2,719,736	\$ 2,348,374	\$ 2,197,828	\$ 2,290,652
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 1,313,474	\$ 1,079,190	\$ 889,038	\$ 795,905	\$ 144,450
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	66.60%	71.59%	72.54%	73.41%	94.07%
COVERED-EMPLOYEE PAYROLL	\$ 634,508	\$ 584,936	\$ 703,582	\$ 716,440	\$ 610,869
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	207.01%	184.50%	126.36%	111.09%	23.65%

NOTES TO SCHEDULES

Changes of assumptions: In 2015, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table using Mortality Improvement Scale MP-2000 for purposes of developing mortality rates. In 2017, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table projected to 2017 using Scale AA.

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

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULES OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 198,784	\$ 107,461	\$ 122,329	\$ 82,910	\$ 77,050
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	230,509	107,461	122,329	82,910	77,050
CONTRIBUTION (EXCESS) DEFICIENCY	\$ (31,725)	\$ -	\$ -	\$ -	\$ -
COVERED-EMPLOYEE PAYROLL	\$ 634,508	\$ 584,936	\$ 703,582	\$ 716,440	\$ 610,869
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	36.33%	18.37%	17.39%	11.57%	12.61%

NOTES TO SCHEDULES

Valuation date:	January 1, 2015	January 1, 2013
Methods and assumptions used to determine contribution rates:		
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	N/A	N/A
Asset valuation method	Market value	Market value
Inflation	3%	3%
Salary increases	3.5% annual increase	3.5% annual increase
Investment rate of return	6.5%	6.5%
Retirement age	Active members are assumed to retire at age 50 and completion of 25 years of service	Active members are assumed to retire at age 50 and completion of 25 years of service
Mortality	Assumed life expectancies are based on the RP-2000 Blue Collar Mortality Tables	Assumed life expectancies are based on the UP-1984 Mortality Tables
Other information	It is assumed that 100% of the police force is married. Husbands are assumed to be three years older than wives	It is assumed that 80% of the police force is married. Husbands are assumed to be three years older than wives

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

TOWNSHIP OF UPPER POTTSGROVE
SCHEDULES OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-4.33%</u>	<u>13.13%</u>	<u>3.33%</u>	<u>-6.06%</u>	<u>4.43%</u>

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

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULES OF CHANGES IN THE NET NON-UNIFORMED
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 30,903	\$ 29,858	\$ 25,023	\$ 24,177	\$ 22,285
Interest	76,362	72,908	68,031	62,932	51,201
Differences between expected and actual experience	-	(41,625)	-	(13,427)	-
Changes of assumptions	-	36,372	-	124,538	-
Benefit payments	(78,444)	(22,899)	(12,312)	(6,708)	(5,306)
NET CHANGE IN TOTAL PENSION LIABILITY	28,821	74,614	80,742	191,512	68,180
Total pension liability, beginning	1,183,119	1,108,505	1,027,763	836,251	768,071
TOTAL PENSION LIABILITY, ENDING (a)	\$ 1,211,940	\$ 1,183,119	\$ 1,108,505	\$ 1,027,763	\$ 836,251
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 57,968	\$ 44,960	\$ 44,471	\$ 36,255	\$ 34,584
Member	10,235	11,060	9,905	11,098	5,142
Net investment income	(35,072)	103,478	33,507	(40,390)	39,707
Benefit payments, including refunds of member contributions	(78,444)	(22,899)	(12,312)	(6,708)	(5,306)
Administrative expense	(2,500)	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(47,813)	136,599	75,571	255	74,127
Plan fiduciary net position, beginning	914,238	777,639	702,068	701,813	627,686
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 866,425	\$ 914,238	\$ 777,639	\$ 702,068	\$ 701,813
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 345,515	\$ 268,881	\$ 330,866	\$ 325,695	\$ 134,438
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	71.49%	77.27%	70.15%	68.31%	83.92%
COVERED-EMPLOYEE PAYROLL	\$ 497,831	\$ 542,709	\$ 534,981	\$ 450,165	\$ 493,244
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	69.40%	49.54%	61.85%	72.35%	27.26%

NOTES TO SCHEDULES

Changes of assumptions: In 2015, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table using Mortality Improvement Scale MP-2000 for purposes of developing mortality rates. In 2017, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table projected to 2017 using Scale AA.

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

TOWNSHIP OF UPPER POTTSGROVE
SCHEDULES OF NON-UNIFORMED PENSION PLAN
CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 48,011	\$ 44,960	\$ 44,471	\$ 36,255	\$ 33,863
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>57,968</u>	<u>44,960</u>	<u>44,471</u>	<u>36,255</u>	<u>34,584</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ (9,957)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (721)</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 497,831</u>	<u>\$ 542,709</u>	<u>\$ 534,981</u>	<u>\$ 450,165</u>	<u>\$ 493,244</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>11.64%</u>	<u>8.28%</u>	<u>8.31%</u>	<u>8.05%</u>	<u>7.01%</u>

NOTES TO SCHEDULES

Valuation date: January 1, 2015 January 1, 2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, normal	Entry age, normal
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	N/A	N/A
Asset valuation method	Market value	Market value
Inflation	3%	3%
Salary increases	3.5% annual increase	3.5% annual increase
Investment rate of return	6.5%	6.5%
Retirement age	Active members are assumed to retire at age 65	Active members are assumed to retire at age 65
Mortality	RP-2000 Mortality Table	UP-1984 Table
Other information	It is assumed that 80% of employees are married. Husbands are assumed to be three years older than wives.	It is assumed that 80% of employees are married. Husbands are assumed to be three years older than wives.

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

TOWNSHIP OF UPPER POTTSGROVE
SCHEDULES OF NON-UNIFORMED PENSION PLAN
INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-3.86%</u>	<u>13.03%</u>	<u>4.68%</u>	<u>-6.86%</u>	<u>6.16%</u>

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

TOWNSHIP OF UPPER POTTSGROVE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2019



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

TOWNSHIP OF UPPER POTTS GROVE
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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Commissioners
Township of Upper Pottsgrove
Pottstown, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Upper Pottsgrove, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Township of Upper Pottsgrove's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Township of Upper Pottsgrove's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Upper Pottsgrove as of December 31, 2019, and the respective changes in financial position--modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note B.

Appendix A-19-a

To the Board of Commissioners
Township of Upper Pottsgrove
Pottstown, Pennsylvania

Emphasis of Matter

For the year ended December 31, 2019, the Township of Upper Pottsgrove adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement (GASB) No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

As discussed in Note N to the financial statements, subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has resulted in economic uncertainties which have the potential to have a significant impact on all Township operations. Our opinion is not modified with respect to this matter.

As discussed in Note N, on April 20, 2020, the Township of Upper Pottsgrove Board of Commissioners adopted Ordinance No. 508 authorizing the sale of the Township sanitary sewer system to PA American Water. The Asset Purchase Agreement was finalized on April 28, 2020. The sale is expected to be finalized within nine to twelve months pending regulatory approval. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 management's discussion and analysis on pages 5 through 14, budgetary comparison information on pages 53 and 54 and pension plan information on pages 55 through 60 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.

Mailie LLP

Oaks, Pennsylvania
June 5, 2020

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

Our discussion and analysis of the Township of Upper Pottsgrove (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2019, within the limitations of the Township's modified cash basis of accounting. Please read it in conjunction with the Township's financial statements that begin on page 15.

FINANCIAL HIGHLIGHTS

- The Township's General Fund has a modified cash basis fund balance of \$1,583,972 at December 31, 2019. This compares to a fund balance of \$1,419,928 at the end of 2018. The difference in fund totals is due to completing budgeted projects on time preserving a carryover balance. Also, during 2019 there was \$275,000 of transfers in from other funds as follows:
 - \$100,000 transfer from Open Space Fund for .25% Earned Income Tax revenue for tax year 2019.
 - \$175,000 transfer from Sewer Fund for budgeted transfers in year 2019 to cover Sewer Fund expenditure paid out of the General Fund.
- The Township's Highway Aid Fund has a modified cash basis fund balance of \$104,830 at December 31, 2019. This compares to a fund balance of \$(8,665) at December 31, 2018. The difference in fund totals is due to not completing budgeted road project in 2019.
- The Township's Open Space Fund has a modified cash basis fund balance of \$258,207 at December 31, 2019, which will be used for the acquisition of land. This compares to \$321,028 at December 31, 2018.
- The Township's Sewer Fund has a modified cash basis net position of \$1,077,993 at December 31, 2019, which will be used for future sanitary sewer improvement projects in the Township. This compares to \$873,234 at December 31, 2018. The increase in net position is due to an increase in revenue for connection fees from new developments and a reduction in operating and maintenance costs in 2019.
- The Township's outstanding long-term debt principal balance at December 31, 2019 decreased by \$880,769 due to regularly scheduled debt payments in 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: Management's Discussion and Analysis (MD&A), the basic financial statements, notes to financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

Government-Wide Financial Statements

The statement of net position--modified cash basis and the statement of activities--modified cash basis (on pages 15 and 16) provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances. The statement of activities reports revenues and expenditures utilizing the modified cash basis of accounting as described in Note B to the financial statements.

Fund Financial Statements

Fund financial statements (beginning on page 17) focus on the individual parts of the Township's government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant "major" funds. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the Township operates like businesses, such as the sewer services.

Notes to the Basic Financial Statements

The notes to financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information

The MD&A (pages 5 through 14), pension information (page 55 to page 60) and the budgetary comparison schedule (pages 53 and 54) represent financial information required by Governmental Accounting Standards Board (GASB) to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as the basic financial statements).

BASIS OF ACCOUNTING

The Township has elected to present its financial statements on a modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded. Under the modified cash basis of accounting, only revenues collected and expenditures paid and intergovernmental due to and due from receivables and payables are recorded. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred.

As a result of the use of the modified cash basis of accounting, other receivables, other payables, inventories, long-lived assets, accrued income and expenses, and amortization and depreciation are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

REPORTING THE TOWNSHIP AS A WHOLE

The Township's Reporting Entity Presentation

This annual report includes all activities for which the Township is responsible. Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the reporting entity, we have considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the significance of their operational or financial relationships with the Township. The Police Pension Fund and the Employees' Pension Fund have been determined to be component units and are reported on the fiduciary fund statements.

The Government-Wide Statement of Net Position and the Statement of Activities

The government-wide financial statements are presented on pages 15 and 16. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse as a result of the year's activities?" The statement of net position--modified cash basis and the statement of activities--modified cash basis report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include only the Township's assets, liabilities and activities resulting from the use of the modified cash basis of accounting, as described.

These two statements report the Township's net position and changes in them. Over time, increases or decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating. You will need to also consider nonfinancial factors to assess the overall health of the Township (i.e., changes in the Township's tax base, the condition of the Township's roads, etc.). In addition, the limitations of the modified cash basis of accounting should be considered when analyzing the overall financial health of the Township.

In the statement of net position--modified cash basis and the statement of activities--modified cash basis, we divide the Township into two types of activities:

Governmental Activities - Most of the Township's basic services are reported here, including general government services, public safety, public works, and culture and recreation. Charges related to these services finance a portion of these activities and the balance with general revenues of the Township, including real estate taxes, earned income taxes and grants.

Business-Type Activities - The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's sewer system operation is reported here.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

REPORTING THE TOWNSHIP'S MOST SIGNIFICANT FUNDS

The Fund Financial Statements

The fund financial statements begin on page 17 and provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by state law or by bond covenants. However, the Township establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The Township's two kinds of funds - governmental and proprietary - under the modified cash basis of accounting use the same accounting approaches.

Governmental Funds - Most of the Township's basic services are reported in governmental funds which focus on how money flows in and out of those funds and the balances remaining at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as cash disbursements and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds - When the Township charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. The Fiduciary Funds financial statements can be found later in this report.

Fiduciary Funds - The Escrow Fund is used to account for assets held by the Township on the behalf of individuals or other organizations.

TOWNSHIP OF UPPER POTTSGROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

A FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Position--Modified Cash Basis

The Township's combined net position, resulting from modified cash basis transactions, was \$3,235,076 at December 31, 2019.

Statements of Net Position--Modified Cash Basis
December 31, 2019 and 2018

	2019		Totals
	Governmental Activities	Business-Type Activities	
ASSETS			
Current and other assets	\$ <u>2,157,083</u>	\$ <u>1,077,993</u>	\$ <u>3,235,076</u>
NET POSITION			
Restricted	527,344	-	527,344
Unrestricted	<u>1,629,739</u>	<u>1,077,993</u>	<u>2,707,732</u>
TOTAL NET POSITION	\$ <u>2,157,083</u>	\$ <u>1,077,993</u>	\$ <u>3,235,076</u>

Net position is shown as restricted if it can only be used for a specific purpose. Net position of \$527,344 and \$444,618 at December 31, 2019 and 2018, respectively, is restricted and the remaining net position is unrestricted.

Appendix A-19-a

2018		
Governmental Activities	Business-Type Activities	Totals
\$ 1,900,354	\$ 873,234	\$ 2,773,588
444,618	-	444,618
<u>1,455,736</u>	<u>873,234</u>	<u>2,328,970</u>
<u>\$ 1,900,354</u>	<u>\$ 873,234</u>	<u>\$ 2,773,588</u>

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

Summary of Statement of Activities--Modified Cash Basis
Years Ended December 31, 2019 and 2018

	2019		
	Governmental Activities	Business-Type Activities	Totals
REVENUES			
Program revenues			
Charges for services	\$ 416,492	\$ 1,467,228	\$ 1,883,720
Operating grants and contributions	517,353	-	517,353
Capital grants and contributions	-	-	-
General revenues			
Real estate taxes	1,093,056	-	1,093,056
Per capita taxes	715	-	715
Real estate transfer taxes	183,766	-	183,766
Earned income taxes	1,409,950	-	1,409,950
Local service taxes	36,576	-	36,576
Interest income and rents	212,963	17,095	230,058
Refunds of prior year expenses	9,138	6,127	15,265
Other	8,725	-	8,725
Transfers	175,000	(175,000)	-
TOTAL REVENUES	4,063,734	1,315,450	5,379,184
EXPENSES			
General government	566,167	-	566,167
Public safety	1,937,742	-	1,937,742
Public works	558,152	1,110,691	1,668,843
Culture and recreation	274,833	-	274,833
Debt service	342,086	-	342,086
Refund of prior year revenue	105	-	105
Other	127,920	-	127,920
TOTAL EXPENSES	3,807,005	1,110,691	4,917,696
CHANGE IN NET POSITION	\$ 256,729	\$ 204,759	\$ 461,488

Appendix A-19-a

2018		
Governmental Activities	Business-Type Activities	Totals
\$ 526,405	\$ 1,388,584	\$ 1,914,989
471,779	9,518	481,297
-	69,292	69,292
1,096,797	-	1,096,797
663	-	663
174,179	-	174,179
1,362,921	-	1,362,921
37,419	-	37,419
171,444	10,727	182,171
178,614	-	178,614
4,000	-	4,000
270,000	(270,000)	-
<u>4,294,221</u>	<u>1,208,121</u>	<u>5,502,342</u>
696,292	-	696,292
1,795,062	-	1,795,062
627,914	1,182,715	1,810,629
64,822	-	64,822
358,127	-	358,127
33,278	-	33,278
145,672	-	145,672
<u>3,721,167</u>	<u>1,182,715</u>	<u>4,903,882</u>
<u>\$ 573,054</u>	<u>\$ 25,406</u>	<u>\$ 598,460</u>

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

The Township's combined net position, resulting from modified cash basis transactions, increased by \$461,488 during 2019. Looking at the net position and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$256,729 and business-type activities had an increase of \$204,759 during 2019.

To aid in the understanding of the statement of activities, some additional explanation is provided.

Governmental Activities

Of particular interest is the format that is significantly different from a typical statement of activities. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is net (expenditures) revenue by program. This type of format highlights the relative financial burden of each of the functions on the Township's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenues, even if restricted for a specific purpose.

For the years ended December 31, 2019 and 2018, total revenues for governmental activities, resulting from modified cash basis transactions, amounted to \$4,063,734 and \$4,294,221, respectively.

For the year ended December 31, 2019, total expenditures for governmental activities resulting from modified cash basis transactions amounted to \$3,807,005. Of these total disbursements, taxpayers and other general revenues funded \$3,129,889, while those directly benefiting from the program funded \$517,353 from grants and contributions and \$416,492 from charges for services. Expenditures included \$342,086 of interest on long-term debt. For the year ended December 31, 2018, total expenditures for governmental activities resulting from modified cash basis transactions amounted to \$3,721,167. Of these total disbursements, taxpayers and other general revenues funded \$3,296,037 while those directly benefiting from the program funded \$471,779 from grants and contributions and \$526,405 from charges for services. Expenditures included \$358,127 of interest on long-term debt.

Business-Type Activities

In reviewing the business-type activities' net revenues and expenditures resulting from modified cash basis transactions for the year ended December 31, 2019 and 2018, there are certain activities that need to be examined more closely. While the business-type activities reported net revenues for user charges of \$1,467,228 and \$1,388,584, in 2019 and 2018, respectively, the business-type activities reported expenditures of \$1,110,691 and \$1,182,715 in 2019 and 2018, respectively. In 2019 and 2018, the business-type activities had an operating income of \$204,759 and \$25,406, respectively.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

A FINANCIAL ANALYSIS OF THE TOWNSHIP'S INDIVIDUAL FUNDS

Certain funds experience noteworthy changes from the prior year and are highlighted as follows:

- For the year ended December 31, 2019, the General Fund reported revenues equaling \$3,294,476 (including transfers in of \$275,000 and \$8,725 proceeds from sale of general capital assets) and expenditures equaling \$3,130,432, resulting in a current year increase of \$164,044. For the year ended December 31, 2018, the General Fund reported revenues equaling \$3,786,524 (including transfers in of \$605,159 and \$4,000 proceeds from sale of general capital assets) and expenditures equaling \$3,148,786 (including transfers out of \$7,429) resulting in a current year increase of \$637,738.
 - The real estate tax millage for general purposes was 3.40 mills for 2019 and 2018. Total real estate tax revenues decreased by \$1,622 from 2018.
 - Earned income tax revenues were \$942,298 for the year ended December 31, 2019 and \$909,082 for the year ended December 31, 2018, an increase of \$33,216.
- The Open Space Fund qualified as a major fund for the years ended December 31, 2019 and 2018 and was reported as such in accordance with the requirements of GASB 34. There was a decrease in fund balance of \$62,821 in 2019, which was a result of expenditures in excess of revenues, mainly due to a property being purchased during the year. There was a decrease in fund balance of \$493, in 2018 which was a result of revenues in excess of expenditures with no property purchases during the year.
- The Sewer Fund had revenues in excess of expenditures in 2019 and 2018 in the amount of \$204,759 and \$25,406, respectively. There was an increase in connection fees and a reduction in operating and maintenance costs in 2019.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Township's Board of Commissioners made no revisions to the original adopted budget for 2019 or 2018. For December 31, 2019, General Fund appropriations were in excess of expenditures in the amount of \$281,850, while actual resources available for appropriations were \$108,525 in excess of the final budgeted amount. For December 31, 2018, General Fund appropriations were less than expenditures in the amount of \$264,539, while actual resources available for appropriations were \$620,449 in excess of the final budgeted amount.

CAPITAL ASSETS DEBT ADMINISTRATION

Capital Assets

The acquisition of capital assets by the Township is reported as expenditures in the year of acquisition in the fund acquiring the related assets.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

Long-Term Debt

Proceeds from the acquisition of long-term debt are reported as revenues in the respective fund acquiring the debt in the year the proceeds are received. Correspondingly, debt service payments are reported as expenditures in the year payment is made by the fund making the related debt service payments.

During the years ended December 31, 2019 and 2018, the Township had no proceeds from debt issuance.

As of December 31, 2019, the Township's total outstanding debt was \$7,323,535 compared to \$8,204,304 for the year ended December 31, 2018.

Additional information on the Township's long-term debt can be found in Note E of this report.

NET PENSION LIABILITY

At December 31, 2019, the Township had a net pension liability equal to \$1,123,941 (\$914,050 is attributed to the Police Pension Plan and \$209,891 is attributed to the Non-uniform Pension Plan).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

Economic Factors

Beginning on March 1, 2020, the President of the United States found and proclaimed that the Novel Coronavirus Disease (COVID-19) outbreak in the United States constituted a national emergency. Pennsylvania Governor Tom Wolf signed an emergency disaster declaration on March 6, 2020 to provide increased support to state agencies involved in the response to the virus. On March 19, 2020 Pennsylvania Governor Tom Wolf ordered all non-life-sustaining businesses to close and on April 1, 2020 all individuals residing in the Commonwealth were ordered to stay at home except as needed to access, support, or provide life-sustaining business, emergency, or government service.

Upper Pottsgrove Township declared a disaster emergency on March 20, 2020. COVID-19 is expected to impact Township revenue streams, including real estate transfer tax, earned income tax, local service tax, building permits and investment income. Revenue streams funded by the Commonwealth of Pennsylvania, such as pension state aid, are also expected to be impacted. While the overall economic impact of the COVID-19 outbreak is uncertain, it is expected that there will be a significant negative impact to federal, state and local government budgets. Upper Pottsgrove Township will re-evaluate the current Township budget and continue to aggressively pursue new potential economic growth.

On April 20, 2020 the Township Board of Commissioners adopted Ordinance No. 508 authorizing the sale of the sanitary sewer system, execution of an asset purchase agreement with Pennsylvania-American Water Company, and the execution of any other documents related to the sale. The asset purchase agreement was executed on April 28, 2020 with a purchase price of \$13,750,000.

TOWNSHIP OF UPPER POTTS GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2019

2020 Budget

In 2020 the Township adopted a General Fund budget deficit in the amount equal to \$360,287 and budgeted to transfer in \$115,000 from the Open Space Fund and \$175,000 from the Sewer Fund for a net change in fund balance of expenditures in excess of revenues in the amount equal to \$70,287. The Township is continuing to use prior year cash reserves to fund current operating expenses. As previously stated, the Township will persist in its efforts to locate and expand economic development opportunities. In 2020 construction continues on a 58 single family home development located off of West Moyer Road and a 51 unit townhome development located on Cross Road. Also, in 2020, a 143 unit age-restricted community development located on Kummerer Road was approved, and construction is expected to begin in 2020. The Township will continue to improve its infrastructure. A Tax Anticipation Note was not budgeted for 2020 due to sufficient cash reserves.

Township staff will strive to ensure that the Board of Commissioners remains cognizant of the financial stability of the Township by providing monthly financial updates and other financial data as needed. The Township Board of Commissioners continued their endeavor to provide public accessibility to the Township budget review and approval process by holding a number of public meetings to discuss and approve the 2020 Budget. The 2020 General Fund Budget, unanimously approved by the Board of Commissioners, saw projected revenues (excluding budget transfers in from other funds) increase from \$2,902,226 in 2019 to \$2,927,424 in 2020. The Township will closely monitor and pursue existing and potential economic development and revenue producing opportunities.

2020 Rates

The Township did not increase tax rates in the 2020 budget. The total real estate millage assessment was set at 4.0 mills (3.4 mills for General Fund and .6 mills for Fire Fund).

The 2020 budget includes taxes collected for Earned Income Tax (.75%), Realty Transfer Tax (1/2%) and the Emergency Municipal Services Tax (\$52 per capita). Act 511 of 1965, as amended, provides local government units with the ability to collect various taxes on residents, businesses and workers within the Township.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Township at 610-323-8675.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF NET POSITION--MODIFIED CASH BASIS
DECEMBER 31, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and equivalents	\$ <u>2,157,083</u>	\$ <u>1,077,993</u>	\$ <u>3,235,076</u>
NET POSITION			
Restricted	\$ 527,344	\$ -	\$ 527,344
Unrestricted	<u>1,629,739</u>	<u>1,077,993</u>	<u>2,707,732</u>
TOTAL NET POSITION	\$ <u>2,157,083</u>	\$ <u>1,077,993</u>	\$ <u>3,235,076</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF ACTIVITIES--MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 566,167	\$ 150,208	\$ 152,813	\$ -
Public safety	1,937,742	194,850	107,594	-
Public works	558,152	-	256,946	-
Culture and recreation	274,833	3,117	-	-
Refunds of prior year revenues	105	-	-	-
Other	127,920	68,317	-	-
Debt service	342,086	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	3,807,005	416,492	517,353	-
BUSINESS-TYPE ACTIVITIES				
Sewer	1,110,691	1,467,228	-	-
TOTAL TOWNSHIP ACTIVITIES	\$ 4,917,696	\$ 1,883,720	\$ 517,353	\$ -

GENERAL REVENUES

Taxes

Real estate

Transfer

Earned income tax

Per capita

Local services

Investment income

Refunds of prior year expenses

Gain on disposal of capital asset

TRANSFERS

**TOTAL GENERAL REVENUES
AND TRANSFERS**

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Appendix A-19-a

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (263,146)	\$ -	\$ (263,146)
(1,635,298)	-	(1,635,298)
(301,206)	-	(301,206)
(271,716)	-	(271,716)
(105)	-	(105)
(59,603)	-	(59,603)
(342,086)	-	(342,086)
(2,873,160)	-	(2,873,160)
-	356,537	356,537
(2,873,160)	356,537	(2,516,623)
1,093,056	-	1,093,056
183,766	-	183,766
1,409,950	-	1,409,950
715	-	715
36,576	-	36,576
212,963	17,095	230,058
9,138	6,127	15,265
8,725	-	8,725
175,000	(175,000)	-
3,129,889	(151,778)	2,978,111
256,729	204,759	461,488
1,900,354	873,234	2,773,588
\$ 2,157,083	\$ 1,077,993	\$ 3,235,076

TOWNSHIP OF UPPER POTTSGROVE
BALANCE SHEET--MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General Fund	Open Space Fund	Capital Projects Fund	Highway Aid Fund	Fire Protection Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,583,972	\$ 258,207	\$ 45,767	\$ 104,830	\$ 164,307	\$ 2,157,083
FUND BALANCES						
Restricted						
Open space	-	258,207	-	-	-	258,207
Fire protection	-	-	-	-	164,307	164,307
Highways	-	-	-	104,830	-	104,830
Unassigned	1,583,972	-	45,767	-	-	1,629,739
TOTAL FUND BALANCES	\$ 1,583,972	\$ 258,207	\$ 45,767	\$ 104,830	\$ 164,307	\$ 2,157,083

See accompanying notes to the basic financial statements.

Appendix A-19-a

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES--MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General Fund	Open Space Fund
REVENUES		
Taxes		
Real estate	\$ 929,991	\$ -
Per capita	715	-
Real estate transfer	183,766	-
Earned income	942,298	467,652
Local service	36,576	-
Licenses and permits	211,067	-
Fines and forfeits	26,572	-
Interest and rents	201,358	7,256
Intergovernmental	211,569	-
Charges for services	176,703	-
Contributions from private sector	88,793	-
Refund of prior year expenses	1,343	7,795
TOTAL REVENUES	<u>3,010,751</u>	<u>482,703</u>
EXPENDITURES		
Current		
General government	566,167	-
Public safety	1,813,001	-
Public works, highways and streets	508,272	-
Culture and recreation	78,962	195,871
Debt service		
Principal	31,000	190,000
Interest and other charges	5,021	59,653
Refunds of prior year revenues	89	-
Other	127,920	-
TOTAL EXPENDITURES	<u>3,130,432</u>	<u>445,524</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(119,681)</u>	<u>37,179</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	275,000	-
Transfers out	-	(100,000)
Sale of general capital assets	8,725	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>283,725</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCES	164,044	(62,821)
FUND BALANCES AT BEGINNING OF YEAR	<u>1,419,928</u>	<u>321,028</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,583,972</u>	<u>\$ 258,207</u>

See accompanying notes to the basic financial statements.

Appendix A-19-a

<u>Capital Projects Fund</u>	<u>Highway Aid Fund</u>	<u>Fire Protection Fund</u>	<u>Total Governmental Funds</u>
\$ 352	\$ -	\$ 162,713	\$ 1,093,056
-	-	-	715
-	-	-	183,766
-	-	-	1,409,950
-	-	-	36,576
-	-	-	211,067
-	-	-	26,572
942	2,306	2,761	214,623
-	217,481	-	429,050
-	-	-	176,703
-	-	-	88,793
-	-	-	9,138
<u>1,294</u>	<u>219,787</u>	<u>165,474</u>	<u>3,880,009</u>
-	-	-	566,167
-	-	124,741	1,937,742
-	33,903	-	542,175
-	-	-	274,833
-	65,363	-	286,363
-	7,026	-	71,700
-	-	16	105
-	-	-	127,920
<u>-</u>	<u>106,292</u>	<u>124,757</u>	<u>3,807,005</u>
<u>1,294</u>	<u>113,495</u>	<u>40,717</u>	<u>73,004</u>
-	-	-	275,000
-	-	-	(100,000)
-	-	-	8,725
<u>-</u>	<u>-</u>	<u>-</u>	<u>183,725</u>
1,294	113,495	40,717	256,729
<u>44,473</u>	<u>(8,665)</u>	<u>123,590</u>	<u>1,900,354</u>
\$ <u>45,767</u>	\$ <u>104,830</u>	\$ <u>164,307</u>	\$ <u>2,157,083</u>

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF NET POSITION--MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2019

	<u>Sewer Fund</u>
ASSETS	
Cash	\$ <u>1,077,993</u>
NET POSITION	
Unrestricted	\$ <u>1,077,993</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION--MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services, sewer charges	\$ 1,374,115
Connection fees	93,113
Refund of prior year expenses	6,127
TOTAL OPERATING REVENUES	<u>1,473,355</u>
OPERATING EXPENSES	
Wastewater collections and treatment	<u>354,533</u>
OPERATING INCOME	<u>1,118,822</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	17,095
Debt service	
Principal expense	(610,383)
Interest expense	<u>(145,775)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(739,063)</u>
INCOME BEFORE INTERFUND TRANSFERS	379,759
INTERFUND TRANSFERS	
Transfers out	<u>(175,000)</u>
CHANGE IN NET POSITION	204,759
NET POSITION AT BEGINNING OF YEAR	<u>873,234</u>
NET POSITION AT END OF YEAR	<u>\$ 1,077,993</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTSGROVE
STATEMENT OF FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2019

	Pension Trust Funds		Custodial
	Police Pension Fund	Employees' Pension Fund	Fund Escrow Fund
ASSETS			
Cash	\$ 31,276	\$ 7,914	\$ 68,695
Investments	<u>3,205,368</u>	<u>999,699</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 3,236,644</u>	<u>\$ 1,007,613</u>	<u>\$ 68,695</u>
NET POSITION			
Restricted for benefits	\$ 3,236,644	\$ 1,007,613	\$ -
Restricted for custodial purposes	<u>-</u>	<u>-</u>	<u>68,695</u>
TOTAL NET POSITION	<u>\$ 3,236,644</u>	<u>\$ 1,007,613</u>	<u>\$ 68,695</u>

See accompanying notes to the basic financial statements.

Appendix A-19-a

TOWNSHIP OF UPPER POTTS GROVE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--
MODIFIED CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2019

	Pension Trust Funds		Custodial
	Police Pension Fund	Employees' Pension Fund	Fund Escrow Fund
ADDITIONS			
Contributions			
Employer and Commonwealth	\$ 208,849	\$ 47,251	\$ -
Employee	47,584	15,663	-
Developers	-	-	169,280
TOTAL CONTRIBUTIONS	<u>256,433</u>	<u>62,914</u>	<u>169,280</u>
Investment earnings			
Increase in fair market value of assets	426,490	137,282	-
Interest and dividends	86,793	27,997	-
Investment expense	(27,166)	(8,801)	-
TOTAL INVESTMENT EARNINGS	<u>486,117</u>	<u>156,478</u>	<u>-</u>
TOTAL ADDITIONS	<u>742,550</u>	<u>219,392</u>	<u>169,280</u>
DEDUCTIONS			
Payments to participants	124,570	78,204	-
Escrow payments	-	-	151,311
TOTAL DEDUCTIONS	<u>124,570</u>	<u>78,204</u>	<u>151,311</u>
CHANGE IN NET POSITION	617,980	141,188	17,969
NET POSITION AT BEGINNING OF YEAR, restated	<u>2,618,664</u>	<u>866,425</u>	<u>50,726</u>
NET POSITION AT END OF YEAR	<u>\$ 3,236,644</u>	<u>\$ 1,007,613</u>	<u>\$ 68,695</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A - NATURE OF ACTIVITY

Upper Pottsgrove Township, Montgomery County, Pennsylvania (the Township), founded in 1889, has an approximate population of 5,300, based on a 2010 census report, living within an area of 5 square miles. The Township is in the southeastern portion of the Commonwealth of Pennsylvania and is located in Montgomery County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in generally accepted accounting principles.

Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except for the following modifications:

- *Interfund receivables and payables* that arise from transactions and events involving cash or cash equivalents are recognized.
- *Investments in the pension funds* are recognized.

Financial Reporting Entity

In determining the financial reporting entity, the Township complies with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. In reviewing the criteria for inclusion in the financial statements, the Township considered the following:

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Township is a Pennsylvania First Class Township which operates under a Board of Commissioners form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The Non-Uniform and Police Pension Plan's are single employer defined benefit pension plans that provide pension for all regular, full-time employees and sworn police officers. Although the plans are separate legal entities, it is reported as if it is part of the government as it is governed by a board comprised of members appointed by the Board of the Township and the Township is responsible for funding the plans. The plans are reported as fiduciary funds and do not issue separate financial statements.

Basis of Presentation

Original and supplemental budgets are included under the heading of budget in the financial statements. Appropriations lapse at year-end.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues and expenditures. Funds are organized into two major categories: governmental and enterprise. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

Total assets, liabilities, revenues, or expenditures of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and total assets, liabilities, revenues or expenditures of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The Township may also report as a major fund any fund it believes to be of particular importance to the financial statement users.

The funds of the financial reporting entity are described below:

Governmental Funds

The Township reports the following Governmental Funds:

The *General Fund* is the primary operating fund of the Township and is always classified as a major fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

The *Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The reporting entity includes the following special revenue funds that are reported as major funds:

- *The State Liquid Fuels Highway Aid Fund* is used to account for the proceeds from the State Motor License Fund. Under the Act of June 1, 1956, P. L. 1944, No. 145, this Fund must be kept separate from all other funds and no other funds shall be commingled with this Fund. Expenditures are legally restricted to expenditures for highway purposes in accordance with Department of Transportation regulations. County liquid fuels tax payments to the local government are not accounted for in this Fund.
- *Fire Protection Fund* is used to account for revenues generated from the .6 mill assessment received from Township residents for the purpose of providing support for the Township's volunteer fire department.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Capital Projects Funds* are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets, including those financed by general obligation bond proceeds. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. The reporting entity includes the following capital projects funds that are reported as major funds:

- *The Open Space Fund* is used to account for the accumulation of resources to be utilized for the purpose of acquiring and preserving open space within the Township's boundaries.
- *The Capital Projects Fund* is used to account for funds that will be used for capital projects.

Proprietary Funds

The Township reports the following major Proprietary Funds:

The Enterprise Fund is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund, which is reported as a major fund:

- *The Sewer Fund* is used to account for the operation of the sewer collection system, which is operated as a public utility and is not included as a regular function in the General Fund.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following are the Township's fiduciary fund types:

- *The Pension Trust Funds*, which include the Police Pension Fund and Employees' Pension Fund, are used to account for the activities of the Police and Employees' Pension Plan, which accumulates resources for pension benefit payments to qualified employees.
- *The Custodial Funds*, which includes the Escrow Fund, is used to account for funds received from individuals and private organizations for specific uses within the Township's boundaries.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the primary government financial statements.

Modified Cash Basis

The Township's policy is to prepare its financial statements on a modified cash basis under which only revenues collected, and expenditures paid and intergovernmental due to and due from receivables and payables are recorded. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred. Consequently, other receivables, other payables, inventories, long-lived assets, accrued income and expenses, and amortization and depreciation which may be material in amount, are not reflected in the accompanying financial statements, which are not intended to present the financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. Governmental fund type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary funds and nonexpendable trust funds are accounted for on a cost of services or "capital maintenance" measurement focus. Their reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in equity. All Proprietary Funds are accounted for on a flow of economic resources measurement focus. The statement of revenues, expenses and changes in net position--modified cash basis presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSET AND LIABILITY ACCOUNTING POLICY DISCLOSURES

Cash

The Township considers all cash accounts that are not subject to withdrawal restrictions or penalties to be cash.

The Township pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable.

For the purpose of financial reporting, cash includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments

The Board of Commissioners is authorized by statutes to invest its funds as defined in the Township Code. Statutes authorize the Township to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the Township may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value.

Due To and From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Purchased capital assets are recorded as expenditures in the governmental fund types. Proprietary fund type capital assets are recorded as expenditures in the fund in which they are utilized. Infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are recorded as expenditures in the fund types expending the funds.

Long-Term Debt

Debt proceeds from issuance of long-term debt are reported as other financing sources, and the payment of principal and interest is reported as expenditures in the fund financial statements and government wide statements. Debt service expenditures are recognized in the period paid.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences for vacation and sick leave are recorded when paid.

Equity

Government-Wide Statements

Net position is classified into the following two components:

Restricted - This component of net position consists of constraints placed on net position use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Township's policy is to first use restricted net position prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental Fund Financial Statements

Fund balances are classified into specifically designed classifications as follows:

Nonspendable - This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally required to be maintained intact.

Restricted - This classification consists of amounts that are restricted to specific purposes either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation. The restriction is binding unless removed with the consent of the resource provider.

Committed - This classification consists of amounts used for specific purposes imposed by formal action of the Township's highest level of decision-making authority. The commitment is binding unless removed in the same manner imposed. Formal action must occur prior to fiscal year-end; however, the amount may be determined subsequent to year-end.

Assigned - This classification consists of amounts constrained by the Township's intent to be used for specific purposes that are neither restricted nor committed.

Unassigned - This classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE AND EXPENDITURE POLICY DISCLOSURES

Program Revenues

All revenues are recognized when received.

In the statement of activities, revenues that are derived directly from each activity or from parties outside the Township's taxpayers are program revenues. Amounts reported as program revenues include (a) charges to customers or applicants for goods and services or privileges provided, (b) operating grants and contributions and (c) capital grants and contributions, including special assessments.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Proprietary funds distinguish operating revenues and expenditures from nonoperating items. Operating revenues and expenditures generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are sewer usage charges. Operating expenditures of the sewer fund include the cost of the services. All revenues and expenditures not meeting this definition are reported as nonoperating revenues and expenditures. The principal nonoperating revenues and expenditures of the Township's proprietary fund are interest income and transfers in and transfers out.

Property Taxes

The Township is permitted by state law to levy taxes up to 30 mills of assessed valuation for general purposes. State law also permits additional millage to be levied for specific purposes as defined in the law. The millage rate levied by the Township for 2019 was 4.0 mills, consisting of 3.40 mills for general obligations and .6 mills for fire protection, as established by the Board of Commissioners. Current tax collections for the Township were approximately 99% of the total tax levy.

The Township's real estate taxes are based on assessed values established by the County's Board of Assessments. The taxes are collected by an elected local tax collector. Real estate taxes attach an enforceable lien on property when levied on March 1. A discount of 2% is applied to payments made prior to April 30. A penalty of 10% is added to the face amount of taxes paid after June 30. The Montgomery County Tax Claim Bureau collects delinquent real estate taxes on behalf of itself and other taxing authorities. Return of unpaid real estate taxes to the Montgomery County Tax Claim Bureau is made by January 15 of the subsequent year.

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental Revenues

Intergovernmental revenues received from the Commonwealth of Pennsylvania; federal agencies and local governmental units generally to fund specific programs are recognized when received.

Expenditures/Expenses

Expenditures and expenses are recognized when paid.

Internal and Interfund Balances and Activities

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

Interfund Services - Sales or purchases of goods and services between funds are reported as revenues and expenditures.

Interfund Reimbursements - Repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures in the respective funds.

Interfund Transfers - Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

NOTE C - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Provisions

The Township had no material violations of finance-related legal and contractual provisions.

Excess of Expenditures over Appropriations in Individual Funds

No individual fund, which was budgeted as required by the Commonwealth of Pennsylvania, contained an excess of expenditures over appropriations that was not covered by the cash balance at December 31, 2019, and the cash received for the year ended December 31, 2019. Expenditures exceeded appropriations in the following funds:

Open Space Fund	\$	6,871
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Expenditures exceed appropriations in the Open Space Fund due to the expenditures related to the property acquisition being higher than budgeted.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE D - DEPOSITS AND INVESTMENTS

The Township's available cash is invested in demand deposit accounts and money market accounts. The carrying amount of cash and cash equivalents at December 31, 2019, consist of the following:

Cash deposits	\$ <u>3,342,961</u>
Reconciliation to statement of net assets/balance sheet:	
Governmental	\$ 2,157,083
Business-type	1,077,993
Fiduciary	<u>107,885</u>
	\$ <u>3,342,961</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, the Township's deposits may not be returned. The Pennsylvania Local Government Code and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: Pennsylvania Act 72 requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies.

At December 31, 2019, the carrying amount of the Township's bank deposits was \$3,342,961 and the corresponding bank balances were \$3,441,000, of which \$250,000 was covered by the Federal Depository Insurance Corporation and \$42,373 was covered by the Securities Investor Protection Corporation. The remaining \$3,148,627 of deposits was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

Investments

As of December 31, 2019, the Township had the following investments in the Fiduciary Funds:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>One To Five Years</u>	<u>Six to Ten Years</u>	<u>More Than Ten Years</u>
Mutual funds	\$ 725,157	\$ 725,157	\$ -	\$ -	\$ -
Common stocks	2,021,004	2,021,004	-	-	-
Fixed income	718,549	29,042	472,166	217,341	-
Government securities	<u>740,357</u>	<u>73,000</u>	<u>439,969</u>	<u>91,372</u>	<u>136,016</u>
Total	\$ <u>4,205,067</u>	\$ <u>2,848,203</u>	\$ <u>912,135</u>	\$ <u>308,713</u>	\$ <u>136,016</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Fair Value Measurement - The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2019:

Investments in mutual funds of \$725,157, common stocks of \$2,021,004, fixed income investments of \$718,549 and Government securities of \$740,357 are valued using quoted market prices (Level 1 inputs).

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Township limits the type of investments permitted as defined in the Township Code. Permitted investments are defined in Note B. When making investments, the Township can combine monies from more than one fund under the Township's control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township 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, 2019, no investments are held by the investment's counterparties, not in the name of the Township.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE E - LONG-TERM DEBT

At December 31, 2019, long-term debt consists of the following:

	Balance Outstanding December 31, 2018	Additions	Payments	Balance Outstanding December 31, 2019
General Obligation Note, Series B of 2005, initial issue \$1,376,000, interest rate equal to the weekly Municipal Swap Index as of the audit date, monthly interest only payments through June 2018 and annual principal payments beginning June 2018 through June 2028	\$ 1,143,000	\$ -	\$ (239,000)	\$ 904,000
PENNVEST Guaranteed Revenue Note, due in monthly payments of \$26,743, including interest at 3.180% to June 2029; an additional interest only during the construction period at a rate of 2.539%, not to exceed three years from the settlement date	2,224,889	-	(157,383)	2,067,506
General Obligation Bonds, Series of 2012, initial issue \$3,090,000, interest rate ranging from 1.000% to 3.350% per annum, through November 2031	1,905,000	-	(220,000)	1,685,000
General Obligation Bonds, Series of 2013, initial issue \$4,505,000, interest rate ranging from 2.000% to 3.375% per annum, through November 2032	2,630,000	-	(215,000)	2,415,000
General Obligation Note of 2014, initial issue \$500,000, interest at a rate of 2.35 per annum for a period of 5 years, followed by a variable rate at 60% of Wall Street Journal Prime Rate, with the floating rate capped at 4.95%, through September 2024	301,415	-	(49,386)	252,029
	<u>\$ 8,204,304</u>	<u>\$ -</u>	<u>\$ (880,769)</u>	<u>\$ 7,323,535</u>

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE E - LONG-TERM DEBT (Continued)

Total interest expense for the year ended December 31, 2019, was \$217,475.

Aggregate maturities required on long-term debt at December 31, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 908,400	\$ 197,133	\$ 1,105,533
2021	932,150	172,616	1,104,766
2022	739,138	156,240	895,378
2023	763,372	130,500	893,872
2024	772,695	109,344	882,039
2025 to 2029	2,650,861	285,164	2,936,025
2030 to 2032	556,919	23,618	580,537
	<u>\$ 7,323,535</u>	<u>\$ 1,074,615</u>	<u>\$ 8,398,150</u>

The current interest rate payable for variable interest rate debt was utilized to calculate future debt service requirements.

Bond principal and interest payments are paid from the General Fund, Open Space Fund, Highway Aid Fund and Sewer Fund.

Substantially all the Township's assets are pledged as collateral for the outstanding debt.

NOTE F - INTERFUND TRANSFERS AND BALANCES

	<u>Transfers In/From Other Funds</u>	<u>Transfers Out/To Other Funds</u>
Major Funds		
General Fund	\$ 275,000	\$ -
Open Space Fund	-	100,000
Proprietary Fund		
Sewer Fund	-	175,000
	<u>\$ 275,000</u>	<u>\$ 275,000</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE G - FUND BALANCE

	<u>Restricted</u>	<u>Unassigned</u>	<u>Totals</u>
Reported in			
General Fund	\$ -	\$ 1,583,972	\$ 1,583,972
Open Space Fund			
Open space	<u>258,207</u>	<u>-</u>	<u>258,207</u>
Other Governmental Funds			
Capital Projects Fund	-	45,767	45,767
Highway Aid Fund			
Public works, highways and streets	104,830	-	104,830
Fire Protection Fund	<u>164,307</u>	<u>-</u>	<u>164,307</u>
	<u>269,137</u>	<u>45,767</u>	<u>314,904</u>
	<u>\$ 527,344</u>	<u>\$ 1,629,739</u>	<u>\$ 2,157,083</u>

Fund Balance Policy

The Township establishes and maintains reservations of fund balance in accordance with its fund balance policy. This Policy applies to the Township's General Fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned and unassigned amounts. The Township does not have any nonspendable, committed or assigned fund balance.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs or enhance the financial position of the Township in accordance with policies established by the Board of Commissioners.

Spending Policy

The Township's policy is to first use restricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE G - FUND BALANCE (Continued)

The Township's policy is to use unrestricted fund balance in the following order, committed, assigned and unassigned, when an expenditure is incurred for purposes for which each of these fund balance classifications is available.

Minimum Fund Balance Policy

The Township has not formally adopted a minimum fund balance policy.

Committed Fund Balance

The Board of Commissioners is the Township's highest level of decision making authority. The Township has not formally adopted a policy as to the formal action that is required to be taken to establish, modify or rescind a fund balance commitment.

Assigned Fund Balance

The Township has not formally adopted a policy regarding the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body pursuant to which that authorization is given.

Reservations of Fund Balance

Restricted - Open Space Fund

The Township's restricted fund balance in the Open Space Fund consists of earned income tax revenue generated by the enactment of a resolution approving the placement of a referendum on the November 2006 election ballot. The earned income tax was raised .25% to fund open space acquisitions within the Township.

Restricted - Fire Protection Fund

The Township's restricted fund balance in the Fire Protection Fund consists of real estate tax revenues as set forth in the annual budget and any amendments thereto to provide funds for support of the volunteer fire department. Revenues are generated from the .6 mill assessment received from Township residents.

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE G - FUND BALANCE (Continued)

Disbursement of Fund Balance Reserves

No formal policy has been adopted by the Township regarding disbursement of funds within the fund balance reserves, however, disbursement is approved by the Board of Commissioners by inclusion in the approved annual budget and amendments thereto.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process and the amounts of nonspendable, restricted, committed, assigned and the minimum level of unassigned fund balance shall be determined during this process.

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Police Pension Plan investments are carried at fair value as reported by the investment managers.

Plan Description

Plan Administration - The Township administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all police officers 35 hours per week.

Management of the Police Pension Plan is vested in the Board of Commissioners, which consists of five elected members. The Board is responsible for managing, investing and monitoring the Township's Police Pension Fund.

Plan Membership - At December 31, 2019, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	8
	<hr/>
	14
	<hr/>

Benefits Provided - The Township Police Pension Plan is a single-employer Public Employee Retirement System (PERS) established by the Township to provide pension benefits for each person in the employ of the Township Police Department whose customary employment is not for fewer than five months per year.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Plan provisions are established by Township ordinance. The plan provides retirement, disability and death benefits. A member is eligible for normal retirement after attainment of age 50 and completion of 25 years of service in the form of a joint and 50% survivor annuity. The normal retirement benefit is 50% of average compensation multiplied by the accrued benefit adjustment. A member is eligible for a termination benefit which vests at 100% after 12 years in the form of a joint and 50% survivor annuity with income deferred until the normal retirement date. The amount is the accrued benefit on the date of termination multiplied by the vesting percentage. A member is eligible for a disability benefit if the participant is disabled as a result of performing police work in the form of monthly income payable until death or recovery. The amount is 50% of participant's salary on the date disability occurred, offset by Social Security benefits. A member is eligible for a pre-retirement death benefit if they are a fully vested participant with eligible spouse or dependent children whose death does not arise out of or in the course of employment. The benefit is in the form of a monthly annuity deferred to the participant's normal retirement date payable until the later of the date of the eligible spouse's death or the date there is no longer a surviving dependent child of the participant. The benefit amount is 50% of the pension the member would have been receiving had they been retired at the time of death. A member is eligible for a post-retirement death benefit if they are a participant with an eligible spouse or dependent child whose death does not arise out of or in the course of employment. The benefit is in the form of a monthly annuity payable until the later of the date of the eligible spouse's death or the date there is no longer a surviving dependent child of the participant. The benefit amount is 50% of the pension which was payable to the participant. A member is eligible for a lump sum death benefit if they have not met the requirements for the survivor annuity death benefit. The benefit is in the form of a lump sum payment to a beneficiary equal to the member's required contribution account on the date of death.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Members currently contribute 5% of their compensation to the fund. Contributions are subject to collective bargaining.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that maximizes the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investment in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent. The following was the Board's adopted asset allocation policy as of December 31, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	
Large cap	42.0%
Mid cap	4.0%
Small cap	4.0%
International equity	15.0%
Fixed income	<u>35.0%</u>
	<u>100%</u>

Concentrations - There are no investments in any one issuer that exceed 5% of the government's total investments.

Rate of Return - For the year ended December 31, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 18.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2019, were as follows:

Total pension liability	\$ 4,150,694
Plan fiduciary net position	<u>(3,236,644)</u>
NET PENSION LIABILITY	<u>\$ 914,050</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77.98%</u>

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% annual increase
Investment rate of return	6.5%

Mortality rates were based on the RP-2000 Blue Collar Mortality Table projected to 2017 using Scale AA.

Due to the size of the plan, there have 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, 2019 (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	
Large cap	6.09%
Mid cap	7.27%
Small cap	7.27%
International equity	8.24%
Fixed income	3.17%

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that 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.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
BALANCES AT DECEMBER 31, 2018	\$ 3,932,138	\$ 2,618,664	\$ 1,313,474
Changes for the year			
Service cost	158,710	-	158,710
Interest	257,130	-	257,130
Differences between expected and actual experience	(72,715)	-	(72,715)
Changes of assumptions	-	-	-
Contributions			
Employer	-	208,849	(208,849)
Member	-	47,584	(47,584)
Net investment income	-	486,116	(486,116)
Benefit payments	(124,569)	(124,569)	-
Administrative expense	-	-	-
NET CHANGES	<u>218,556</u>	<u>617,980</u>	<u>(399,424)</u>
BALANCES AT DECEMBER 31, 2019	<u>\$ 4,150,694</u>	<u>\$ 3,236,644</u>	<u>\$ 914,050</u>

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	<u>\$ 1,522,094</u>	<u>\$ 914,050</u>	<u>\$ 410,626</u>

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2019, the Township recognized pension expense of \$288,715. At December 31, 2019, deferred outflows or resources and deferred inflows of resources related to pensions were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 143,298	\$ -
Changes in assumptions	136,321	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>126,827</u>
	<u>\$ 279,619</u>	<u>\$ 126,827</u>

Deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

<u>Year Ending December 31,</u>	
2020	\$ 33,670
2021	19,776
2022	51,660
2023	(6,693)
2024	39,142
Thereafter	15,237

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN)

Summary of Significant Accounting Policies

Method Used to Value Investments - Non-Uniformed Pension Plan investments are carried at fair value as reported by the investment managers.

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Plan Description

Plan Administration - The Township administers the Non-Uniformed Pension Plan--a single-employer plan established by the Township to provide pension benefits for each person in the employ of the Township following the attainment of age 21 and the completion of 1820 hours in 12 consecutive months of service.

Management of the Non-Uniformed Pension Plan is vested in the Board of Commissioners, which consists of five elected members. The Board is responsible for managing, investing and monitoring the Township's Non-Uniformed Pension Plan.

Plan Membership - At December 31, 2019, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	6
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>7</u>
	<u>15</u>

Benefits Provided - Plan provisions are established by Township ordinance. The plan provides retirement, termination and death benefits. A member is eligible for normal retirement after attainment of age 65. Benefits are payable in the form of a monthly annuity payable for life for non-married participants, and a joint and 50% survivor annuity for participants who are married at retirement. The benefit amount will be 1.10% of average compensation multiplied by service to a maximum of 35 years of service. A member is eligible for an early retirement benefit at the age of 55 upon completion of six years of service. Benefits are payable in the form of a monthly annuity payable for life for non-married participants, and a joint and 50% survivor annuity for participants who are married at retirement. The benefit amount will be the accrued benefit amount on the early retirement date reduced by 6 2/3% for each year up to five years and 3 1/3% for each year between five and ten that the early retirement date precedes the normal retirement date. A member is eligible for a termination benefit equal to 10% after two years of vesting service, increasing by 20% for each year thereafter, not to exceed 100%. Benefits are in the same form as normal retirement benefits, with income deferred until the normal retirement date. The amount will be the accrued benefit on the date of termination multiplied by the vesting percentage. A member is eligible for a survivor annuity death benefit if the qualified married participant is fully or partially vested in an accrued benefit. The benefit will be in the form of immediate monthly annuity payable to the spouse. If death occurs, the amount paid to the surviving spouse equals the amount that would have been paid had the participant terminated employment on the date of death and survived to his or her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, and died the next day.

Contributions - Township contributions to the plan are determined and paid in accordance with Pennsylvania Act 205 (the Municipal Pension Plan Funding Standard and Recovery Act). Act 205 requires full funding of the entry age normal cost plus plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status.

Employees are required to contribute 2% of their aggregate earnings to the fund. Contributions are subject to collective bargaining.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Investments

Investment Policy - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Commissioners. It is the policy of the Board to pursue an investment strategy that maximizes the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investment in domestic equity securities, international equity securities, domestic fixed income instruments and other asset classes as may be deemed prudent. The following was the Board's adopted asset allocation policy as of December 31, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	
Large cap	42.0%
Mid cap	4.0%
Small cap	4.0%
International equity	15.0%
Fixed income	<u>35.0%</u>
	<u><u>100%</u></u>

Concentrations - There are no investments in any one issuer that exceed 5% of the government's total investments.

Rate of Return - For the year ended December 31, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 18.22%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Township

The components of the net pension liability of the Township at December 31, 2019, were as follows:

Total pension liability	\$ 1,217,504
Plan fiduciary net position	<u>(1,007,613)</u>
NET PENSION LIABILITY	<u>\$ 209,891</u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>82.76%</u></u>

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% annual increase
Investment rate of return	6.5%

Mortality rates were based on the RP-2000 Mortality Table projected to 2017 using Scale AA.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 pension plan's target asset allocation as of December 31, 2019 (see the pension 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	
Large cap	6.09%
Mid cap	7.27%
Small cap	7.27%
International equity	8.24%
Fixed income	3.17%

Discount Rate - The discount rate is based on the long-term expected rate of return on pension plan investments that 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.

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a)-(b)</u>
BALANCES AT DECEMBER 31, 2018	\$ 1,211,940	\$ 866,425	\$ 345,515
Changes for the year			
Service cost	24,495	-	24,495
Interest	76,694	-	76,694
Differences between expected and actual experience	(17,421)	-	(17,421)
Changes of assumptions	-	-	-
Contributions			
Employer	-	47,251	(47,251)
Member	-	15,663	(15,663)
Net investment income	-	156,478	(156,478)
Benefit payments	(78,204)	(78,204)	-
Administrative expense	-	-	-
NET CHANGES	<u>5,564</u>	<u>141,188</u>	<u>(135,624)</u>
BALANCES AT DECEMBER 31, 2019	<u>\$ 1,217,504</u>	<u>\$ 1,007,613</u>	<u>\$ 209,891</u>

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

	1% Decrease <u>(5.5%)</u>	Current Discount Rate <u>(6.5%)</u>	1% Increase <u>(7.5%)</u>
Net pension liability	\$ <u>353,993</u>	\$ <u>209,891</u>	\$ <u>87,767</u>

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE I - DEFINED BENEFIT PENSION PLAN (NON-UNIFORMED PENSION PLAN) (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2019, the Township recognized pension expense of \$47,646. At December 31, 2019, deferred outflows or resources and deferred inflows of resources related to pensions were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 48,897
Changes in assumptions	81,047	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>43,734</u>
	<u>\$ 81,047</u>	<u>\$ 92,631</u>

Deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

<u>Year Ending December 31,</u>	
2020	\$ (173)
2021	(2,730)
2022	7,789
2023	(10,840)
2024	436
Thereafter	(6,066)

NOTE J - CELLULAR TOWER LEASE AGREEMENT

American Tower Lease Agreement

Effective May 31, 2000, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$12,000 as annual rent in the initial year and the rent shall increase annually by 3% of the preceding year's rent. The lessee may sublease or license portions of the space to a third-party provider of communications services. Upon sublease, the lessee will pay rent plus 25% of payments received by the lessee for rights of occupancy.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE J - CELLULAR TOWER LEASE AGREEMENT (Continued)

In addition, in connection with this lease agreement, the Township entered into an exclusive easement agreement with a third party to grant easement rights to a portion of property for the use of an exclusive communications easement related to the operation of a wireless communications site. The Township received an up-front payment in the amount of \$75,000 in 2011 from a third party for the rights to extension of the lease agreement upon expiration of the current lease agreement. At the conclusion of the current lease agreement, the third party will possess the easement and provide for a 50/50 share of all revenue generated from the cellular tower.

Clear Wireless LLC Lease Agreement

Effective February 17, 2010, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$1,900 monthly rent, of which the Township's share of revenue is 40%. Rent shall increase annually by 3% of the preceding year's rent. The lessee may sublease or license portions of the space to a third-party provider of communications services.

MetroPCS Tower Lease Agreement

Effective August 27, 2010, the Township entered into a lease agreement to lease property to a third party (the lessee) for the operation and maintenance of a wireless communications facility. The initial term of the lease is five years with the right to renew the agreement for four successive five-year periods. The lease will pay \$1,800 monthly rent, of which the Township's share of revenue is 40%. Upon renewal, rent shall be adjusted as of the fifth anniversary of the commencement date of the term and of any five-year renewal term by an increase of 15% of the rent paid during the previous term or five-year renewal term. The lessee may sublease or license portions of the space to a third-party provider of communications services.

NOTE K - CAPITAL LEASES

In May 2011, the Township entered into a lease agreement for a fire truck. The lease term is 120 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$11,583 in principal and interest in 2019. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 10,708	\$ 875	\$ 11,583
2021	10,952	631	11,583
2022	11,202	381	11,583
2023	<u>10,828</u>	<u>126</u>	<u>10,954</u>
	<u>\$ 43,690</u>	<u>\$ 2,013</u>	<u>\$ 45,703</u>

TOWNSHIP OF UPPER POTTS GROVE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019

NOTE K - CAPITAL LEASES (Continued)

In July 2015, the Township entered into a lease agreement for a police interceptor. The lease term is 60 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,942 in principal and interest in 2019. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ <u>3,936</u>	\$ <u>36</u>	\$ <u>3,972</u>

In September 2015, the Township entered into a lease agreement for a police interceptor. The lease term is 60 months. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,950 in principal and interest in 2019. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ <u>3,939</u>	\$ <u>37</u>	\$ <u>3,976</u>

In June 2016, the Township entered into a lease agreement for a police interceptor. The lease term is five years, with payments due quarterly. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$7,550 in principal and interest in 2019. Future minimum lease payments under the capital lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 7,386	\$ 164	\$ 7,550
2021	<u>1,877</u>	<u>12</u>	<u>1,889</u>
	<u>\$ 9,263</u>	<u>\$ 176</u>	<u>\$ 9,439</u>

TOWNSHIP OF UPPER POTTSGROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE K - CAPITAL LEASES (Continued)

In December 2016, the Township entered into a lease agreement for a Ford F550 Dump Truck with a snow plow. The lease term is five years, with payments due quarterly. The lease agreement qualifies as a capital lease for accounting purposes. The Township paid \$15,977 in principal and interest in 2019. Future minimum lease payments under the capital lease agreement are as follows:

December 2016 PW Truck

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 15,395	\$ 582	\$ 15,977
2021	<u>11,804</u>	<u>160</u>	<u>11,964</u>
	<u>\$ 27,199</u>	<u>\$ 742</u>	<u>\$ 27,941</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Contingencies

Pending Litigation

In the normal course of business, the Township is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Concentration of Labor

The Township entered into a collective bargaining agreement with the police officers, effective January 1, 2019 through December 31, 2021. Of the Township's total workforce, 50% is covered by this agreement with the police officers.

NOTE M - PRIOR-PERIOD RESTATEMENT

The Township implemented GASB Statement No. 84, *Fiduciary Activities*. The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

For the fiduciary fund custodial activities, the Township has treated the beginning of year net position of \$50,726 as having been recognized in the period incurred. The Township has adjusted beginning net position for their custodial fund activities from \$0 to \$50,726.

TOWNSHIP OF UPPER POTTS GROVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE N - SUBSEQUENT EVENTS

Subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has led to widespread voluntary and government mandated closing of local stores and businesses, which has resulted in significant job losses. These job losses have the potential to have a significant impact on all aspects of Township operations including tax collections. In addition, due to the temporary closure of all businesses that are not deemed life sustaining, state tax revenues could be negatively impacted. This decrease could result in less grant money that is relied upon by local municipalities to fund specific projects. Overall, decreased funding could result in the Township having to curtail or eliminate some non-essential services and furlough employees. At this point, the extent to which COVID-19 will impact our financial condition or results of operations is uncertain and cannot be reasonably estimated at this time.

On April 20, 2020, the Township Board of Commissioners adopted Ordinance No. 508 authorizing the sale of the sanitary sewer system to PA American Water. The Asset Purchase Agreement for the sale was executed on April 28, 2020 with a sale price of \$13,750,000. The sale is expected to be finalized within nine to twelve months pending regulatory approval.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF UPPER POTTSGROVE
BUDGETARY COMPARISON SCHEDULE--
MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Real estate	\$ 936,749	\$ 936,749	\$ 929,991	\$ (6,758)
Per capita	-	-	715	715
Real estate transfer	160,000	160,000	183,766	23,766
Earned income	900,000	900,000	942,298	42,298
Local service	26,500	26,500	36,576	10,076
Licenses and permits	181,250	181,250	211,067	29,817
Fines and forfeits	25,000	25,000	26,572	1,572
Interest and rents	130,000	130,000	201,358	71,358
Intergovernmental	248,550	248,550	211,569	(36,981)
Charges for services	200,785	200,785	176,703	(24,082)
Contributions from private sector	93,392	93,392	88,793	(4,599)
Refund of prior year expenses	-	-	1,343	1,343
TOTAL REVENUES	<u>2,902,226</u>	<u>2,902,226</u>	<u>3,010,751</u>	<u>108,525</u>
EXPENDITURES				
Current				
General government	856,811	856,811	566,167	290,644
Public safety	1,633,473	1,633,473	1,813,001	(179,528)
Public works, highways and streets	580,149	580,149	508,272	71,877
Culture and recreation	74,800	74,800	78,962	(4,162)
Debt service				
Principal	46,600	46,600	31,000	15,600
Interest and other charges	6,948	6,948	5,021	1,927
Note issuance costs	-	-	-	-
Refunds of prior year revenues	-	-	89	(89)
Other	213,501	213,501	127,920	85,581
TOTAL EXPENDITURES	<u>3,412,282</u>	<u>3,412,282</u>	<u>3,130,432</u>	<u>281,850</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(510,056)</u>	<u>(510,056)</u>	<u>(119,681)</u>	<u>390,375</u>
OTHER FINANCING SOURCES				
Transfers in	275,000	275,000	275,000	-
Sale of general capital assets	-	-	8,725	8,725
TOTAL OTHER FINANCING SOURCES	<u>275,000</u>	<u>275,000</u>	<u>283,725</u>	<u>8,725</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ (235,056)</u>	<u>\$ (235,056)</u>	<u>\$ 164,044</u>	<u>\$ 399,100</u>

See accompanying note to the budgetary comparison schedule--modified cash basis.

TOWNSHIP OF UPPER POTTSGROVE
NOTE TO THE BUDGETARY COMPARISON SCHEDULE--
MODIFIED CASH BASIS
DECEMBER 31, 2019

NOTE A - BUDGET MATTERS

The Board of Commissioners annually adopts the budget for the General, Open Space, Highway Aid, Fire Protection and Sewer Funds. Budgetary control is legally maintained at the fund level.

The First Class Township Code provides for the modification of the budget and supplemental appropriations and transfers.

Appropriations, except open project appropriations, encumbrances and unexpended grant appropriations, lapse at the end of each fiscal year.

The budget is prepared on the same modified cash basis of accounting as applied to the governmental funds in the basic financial statements.

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULE OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST SIX FISCAL YEARS

	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY						
Service cost	\$ 158,710	\$ 135,272	\$ 130,698	\$ 119,704	\$ 115,656	\$ 86,196
Interest	257,130	247,609	234,435	199,906	184,794	148,812
Differences between expected and actual experience	(72,715)	-	193,260	-	163,019	-
Changes of assumptions	-	-	87,538	-	163,243	-
Benefit payments	<u>(124,569)</u>	<u>(249,669)</u>	<u>(84,417)</u>	<u>(75,931)</u>	<u>(68,081)</u>	<u>(6,248)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	218,556	133,212	561,514	243,679	558,631	228,760
Total pension liability, beginning	<u>3,932,138</u>	<u>3,798,926</u>	<u>3,237,412</u>	<u>2,993,733</u>	<u>2,435,102</u>	<u>2,206,342</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 4,150,694</u>	<u>\$ 3,932,138</u>	<u>\$ 3,798,926</u>	<u>\$ 3,237,412</u>	<u>\$ 2,993,733</u>	<u>\$ 2,435,102</u>
PLAN FIDUCIARY NET POSITION						
Contributions						
Employer	\$ 106,439	\$ 230,509	\$ 107,461	\$ 122,329	\$ 82,910	\$ 77,050
Member	102,410	38,748	36,080	30,345	32,649	33,994
Net investment income	47,584	(118,160)	312,238	73,803	(140,302)	95,013
Benefit payments, including refunds of member contributions	486,116	(249,669)	(84,417)	(75,931)	(68,081)	(6,248)
Administrative expense	<u>(124,569)</u>	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	617,980	(101,072)	371,362	150,546	(92,824)	199,809
Plan fiduciary net position, beginning	<u>2,618,664</u>	<u>2,719,736</u>	<u>2,348,374</u>	<u>2,197,828</u>	<u>2,290,652</u>	<u>2,090,843</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 3,236,644</u>	<u>\$ 2,618,664</u>	<u>\$ 2,719,736</u>	<u>\$ 2,348,374</u>	<u>\$ 2,197,828</u>	<u>\$ 2,290,652</u>
NET PENSION LIABILITY, ENDING (a)-(b)	<u>\$ 914,050</u>	<u>\$ 1,313,474</u>	<u>\$ 1,079,190</u>	<u>\$ 889,038</u>	<u>\$ 795,905</u>	<u>\$ 144,450</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>77.98%</u>	<u>66.60%</u>	<u>71.59%</u>	<u>72.54%</u>	<u>73.41%</u>	<u>94.07%</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 668,298</u>	<u>\$ 634,508</u>	<u>\$ 584,936</u>	<u>\$ 703,582</u>	<u>\$ 716,440</u>	<u>\$ 610,869</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>136.77%</u>	<u>207.01%</u>	<u>184.50%</u>	<u>126.36%</u>	<u>111.09%</u>	<u>23.65%</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 RP-2000 Blue Collar Table using Mortality Improvement Scale MP-2000 for purposes of developing mortality rates. In 2017, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table projected to 2017

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

**TOWNSHIP OF UPPER POTTS GROVE
SCHEDULE OF POLICE PENSION PLAN
CONTRIBUTIONS
LAST SIX FISCAL YEARS**

	2019	2018	2017	2016	2015	2014
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 203,849	\$ 198,784	\$ 107,461	\$ 122,329	\$ 82,910	\$ 77,050
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	208,849	230,509	107,461	122,329	82,910	77,050
CONTRIBUTION (EXCESS) DEFICIENCY	\$ (5,000)	\$ (31,725)	\$ -	\$ -	\$ -	\$ -
COVERED-EMPLOYEE PAYROLL	\$ 668,298	\$ 634,508	\$ 584,936	\$ 703,582	\$ 716,440	\$ 610,869
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	31.25%	36.33%	18.37%	17.39%	11.57%	12.61%

NOTES TO SCHEDULE

Valuation date:	January 1, 2017	January 1, 2015	January 1, 2013
Methods and assumptions used to determine contribution rates:			
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open
Remaining amortization period	N/A	N/A	N/A
Asset valuation method	Market value	Market value	Market value
Inflation	3%	3%	3%
Salary increases	3.5% annual increase	3.5% annual increase	3.5% annual increase
Investment rate of return	6.5%	6.5%	6.5%
Retirement age	Active members are assumed to retire at age 50 and completion of 25 years of service	Active members are assumed to retire at age 50 and completion of 25 years of service	Active members are assumed to retire at age 50 and completion of 25 years of service
Mortality	Assumed life expectancies are based on the RP-2000 Blue Collar Mortality Tables	Assumed life expectancies are based on the RP-2000 Blue Collar Mortality Tables	Assumed life expectancies are based on the UP-1984 Mortality Tables
Other information	It is assumed that 100% of the police force is married. Husbands are assumed to be three years older than wives	It is assumed that 100% of the police force is married. Husbands are assumed to be three years older than wives	It is assumed that 80% of the police force is married. Husbands are assumed to be three years older than wives

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

TOWNSHIP OF UPPER POTTSGROVE
SCHEDULE OF POLICE PENSION PLAN
INVESTMENT RETURNS
LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>18.11%</u>	<u>-4.33%</u>	<u>13.13%</u>	<u>3.33%</u>	<u>-6.06%</u>	<u>4.43%</u>

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

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULE OF CHANGES IN THE NET NON-UNIFORMED
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST SIX FISCAL YEARS

	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY						
Service cost	\$ 24,495	\$ 30,903	\$ 29,858	\$ 25,023	\$ 24,177	\$ 22,285
Interest	76,694	76,362	72,908	68,031	62,932	51,201
Differences between expected and actual experience	(17,421)	-	(41,625)	-	(13,427)	-
Changes of assumptions	-	-	36,372	-	124,538	-
Benefit payments	(78,204)	(78,444)	(22,899)	(12,312)	(6,708)	(5,306)
NET CHANGE IN TOTAL PENSION LIABILITY	5,564	28,821	74,614	80,742	191,512	68,180
Total pension liability, beginning	1,211,940	1,183,119	1,108,505	1,027,763	836,251	768,071
TOTAL PENSION LIABILITY, ENDING (a)	\$ 1,217,504	\$ 1,211,940	\$ 1,183,119	\$ 1,108,505	\$ 1,027,763	\$ 836,251
PLAN FIDUCIARY NET POSITION						
Contributions						
Employer	\$ 47,251	\$ 57,968	\$ 44,960	\$ 44,471	\$ 36,255	\$ 34,584
Member	15,663	10,235	11,060	9,905	11,098	5,142
Net investment income	156,478	(35,072)	103,478	33,507	(40,390)	39,707
Benefit payments, including refunds of member contributions	(78,204)	(78,444)	(22,899)	(12,312)	(6,708)	(5,306)
Administrative expense	-	(2,500)	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	141,188	(47,813)	136,599	75,571	255	74,127
Plan fiduciary net position, beginning	866,425	914,238	777,639	702,068	701,813	627,686
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$ 1,007,613	\$ 866,425	\$ 914,238	\$ 777,639	\$ 702,068	\$ 701,813
NET PENSION LIABILITY, ENDING (a)-(b)	\$ 209,891	\$ 345,515	\$ 268,881	\$ 330,866	\$ 325,695	\$ 134,438
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	82.76%	71.49%	77.27%	70.15%	68.31%	83.92%
COVERED-EMPLOYEE PAYROLL	\$ 356,397	\$ 497,831	\$ 542,709	\$ 534,981	\$ 450,165	\$ 493,244
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	58.89%	69.40%	49.54%	61.85%	72.35%	27.26%

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 RP-2000 Blue Collar Table using Mortality Improvement Scale MP-2000 for purposes of developing mortality rates. In 2017, amounts reported as changes of assumptions resulted from adjustments to assumed life expectancies as a result of adopting the RP-2000 Blue Collar Table projected to 2017 using Scale AA.

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

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULE OF NON-UNIFORMED PENSION PLAN
CONTRIBUTIONS
LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 47,251	\$ 48,011	\$ 44,960	\$ 44,471	\$ 36,255	\$ 33,863
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>47,251</u>	<u>57,968</u>	<u>44,960</u>	<u>44,471</u>	<u>36,255</u>	<u>34,584</u>
CONTRIBUTION (EXCESS) DEFICIT	<u>\$ -</u>	<u>\$ (9,957)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (721)</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 356,397</u>	<u>\$ 497,831</u>	<u>\$ 542,709</u>	<u>\$ 534,981</u>	<u>\$ 450,165</u>	<u>\$ 493,244</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>13.26%</u>	<u>11.64%</u>	<u>8.28%</u>	<u>8.31%</u>	<u>8.05%</u>	<u>7.01%</u>

NOTES TO SCHEDULE

Valuation date:	January 1, 2017	January 1, 2015	January 1, 2013
Methods and assumptions used to determine contribution rates:			
Actuarial cost method	Entry age, normal	Entry age, normal	Entry age, normal
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open
Remaining amortization period	N/A	N/A	N/A
Asset valuation method	Market value	Market value	Market value
Inflation	3%	3%	3%
Salary increases	3.5% annual increase	3.5% annual increase	3.5% annual increase
Investment rate of return	6.5%	6.5%	6.5%
Retirement age	Active members are assumed to retire at age 65	Active members are assumed to retire at age 65	Active members are assumed to retire at age 65
Mortality	RP-2000 Mortality Table	RP-2000 Mortality Table	UP-1984 Table
Other information	It is assumed that 80% of employees are married. Husbands are assumed to be three years older than wives.	It is assumed that 80% of employees are married. Husbands are assumed to be three years older than wives.	It is assumed that 80% of employees are married. Husbands are assumed to be three years older than wives.

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

TOWNSHIP OF UPPER POTTS GROVE
SCHEDULE OF NON-UNIFORMED PENSION PLAN
INVESTMENT RETURNS
LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>18.22%</u>	<u>-3.86%</u>	<u>13.03%</u>	<u>0.00%</u>	<u>-6.86%</u>	<u>6.16%</u>

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

