

**Borough of Kutztown
FINANCIAL STATEMENTS
together with
AUDITOR'S REPORT
December 31, 2006**



BOROUGH OF KUTZTOWN

A Community Committed to Tradition and Progress

Incorporated ~ 1815



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45 Railroad Street * Kutztown, PA 19530-1112 * Phone: 610-683-6131 * Fax: 610-683-6729 * E-mail: admin@kutztownboro.org

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Management's Discussion and Analysis (MD&A) offers readers of the Borough of Kutztown's financial statements this narrative overview and analysis of the financial activities of the Borough for the fiscal year ended December 31, 2006. Please read this MD&A in conjunction with the Borough's financial statements, summary of significant accounting policies (SSAP) and notes to the financial statements.

The Financial Highlights

- The assets of the Borough of Kutztown exceeded its liabilities as of December 31, 2006 by \$29,679,170 (net assets). Of this amount, \$4,508,491 is cash or cash equivalents, and may be used to meet the government's ongoing obligations to citizens and creditors.
- As of December 31, 2006, the Borough of Kutztown's governmental funds reported an ending fund balance of \$5,344,991. This total includes \$147,235 of special revenue for which use is restricted by tax ordinance or funding source.
- As of December 31, 2006, the Borough of Kutztown's proprietary funds reported an ending fund balance of \$24,334,179. This total is available for use at the government's discretion.
- As of December 31, 2006, the Borough of Kutztown's fiduciary funds reported an ending fund balance of \$2,676,199. This total is available for spending only on the specific fiduciary responsibility.
- The Borough did not receive the budgeted grant funds totaling \$632,000 for the Pedestrian-Friendly Streetlight project. This funding will be rolled over to the 2007 budget with the project expected to be completed next year.
- During the year, the Borough issued \$2,535,000 of General Obligation Bonds (GOB) taking advantage of lower market interest rates. Proceeds of the issue were used to refund remaining outstanding portions of higher interest rate Bonds issued in 2001 and 2002.

Overview of the Financial Statement

This discussion and analysis is intended to serve as an introduction to the Borough of Kutztown's basic financial statements. The Borough of Kutztown's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the Borough of Kutztown's finances.

The statement of net assets presents information on all of the Borough of Kutztown's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported using the accrual basis of accounting, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and unpaid vendor invoices for goods and services provided before December 31, 2006).

Both of the government-wide financial statements distinguish functions of the Borough of Kutztown that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Borough included general government, public safety, community development, public works, emergency management and recreation. Refuse and recycling collection, water distribution, electric distribution, wastewater collection and telecommunications distribution are the business-type activities of the Borough.

The government-wide financial statements can be found on pages 12, 13 and 14 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough of Kutztown, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Borough of Kutztown are governmental, proprietary and fiduciary type funds.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Borough of Kutztown maintains six individual governmental funds (general, fire protection tax, recreation tax, road tax, highway aid and unemployment compensation). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund and the special revenue fund. Only the general fund is considered a major fund. Data from the other governmental funds are combined into a single aggregated presentation.

The Borough of Kutztown adopts an annual appropriated budget for its general fund as well as its other governmental funds. A budgetary comparison statement has been provided for the general fund on page 42 to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15 and 16 of this report.

Proprietary Funds:

The Borough of Kutztown maintains six proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Borough of Kutztown uses proprietary funds to account for its refuse/recycling, water, electric, wastewater and telecommunications activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The propriety fund financial statements provide separate information for each of the business-type funds because they are major funds of the Borough of Kutztown.

The propriety fund financial statements can be found on pages 17-21 of this report.

Budget comparisons for proprietary funds are on pages 43-45.

Fiduciary Funds:

The Borough of Kutztown maintains one fiduciary fund to account and report resources held for the defined benefit retirement plan of members of the Kutztown Police.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Borough's own programs.

The fiduciary fund financial statements are on pages 22 and 23.

Government-Wide Financial Analysis:

As noted earlier, net assets may serve, over time, as a useful indicator of the government's financial position. In the case of the Borough of Kutztown, assets exceeded liabilities by \$29,679,170 at the close of 2006.

Infrastructure assets of the governmental activities are included within this report. The general capital asset (e.g. land, buildings, machinery, infrastructure and equipment) of the governmental activities of the Borough of Kutztown, less outstanding debt, equals \$23,929,268. The majority of the outstanding debt of the governmental activities funds was incurred for infrastructure.

The largest portion of the Borough of Kutztown's net assets (80.6 percent) reflects its investments in capital assets (e.g. land, buildings, building improvements, machinery and equipment), less any related outstanding debt used to acquire those assets. The Borough of Kutztown uses these capital assets to provide services to citizens.

<u>Borough of Kutztown's Net Assets</u>	<u>2006</u>
Current and Other Assets	\$ 6,915,943
Capital Asset	\$ 37,539,268
Total Assets	<u>\$ 44,455,211</u>
Current Liabilities	\$ 1,166,041
Long-Term Debt	\$ 13,610,000
Total Liabilities	<u>\$ 14,776,041</u>
Invested in Capital Assets, Net of Debt	\$ 23,929,268
Restricted by Tax Ordinance or Funding Source	\$ 147,235
Reserved for Capital Projects and Reserves	\$ 2,607,481
Unrestricted	\$ 2,995,186
Total Net Assets	<u>\$ 29,679,170</u>

At the end of the current fiscal year, the Borough of Kutztown is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Borough of Kutztown Changes in Net Assets

Shown below is a summary comparing revenues and expenses for the current fiscal year, which is a summary of information identified by the statement of activities on pages 13 and 14.

Program Revenues

Charges for Services	\$ 390,366	\$ 11,416,813	\$ 11,952,797
Grants and Contributions	\$ 213,029	\$ 81,352	\$ 294,381
General Revenues	\$ 1,693,114	\$ -	\$ 1,693,114
Transfers in (out)	\$ 961,352	\$ (961,352)	\$ -
Total Revenues	<u>\$ 3,257,861</u>	<u>\$ 10,536,813</u>	<u>\$ 13,940,292</u>

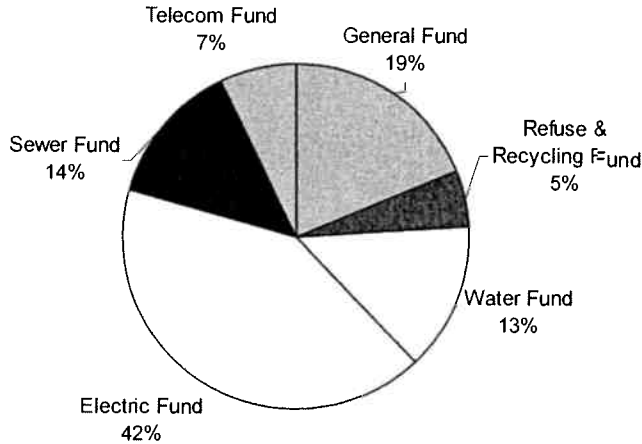
Expenditures

General Government	\$ 421,233	\$ -	\$ 421,233
Public Safety	\$ 1,727,140	\$ -	\$ 1,727,140
Highways and Streets	\$ 482,912	\$ -	\$ 482,912
Culture and Recreation	\$ 433,143	\$ -	\$ 433,143
Contributions	\$ 47,890	\$ -	\$ 47,890
Debt Service	\$ 103,464	\$ -	\$ 103,464
Capital Outlay	\$ -	\$ -	\$ -
Utility Services	\$ -	\$ 10,816,968	\$ 11,186,968
Total Expenditures	<u>\$ 3,215,782</u>	<u>\$ (280,155)</u>	<u>\$ 14,402,750</u>

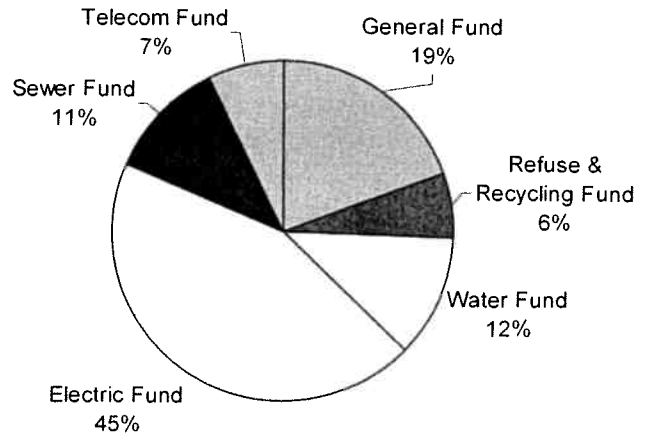
Change in Net Assets	\$ 42,079	\$ (504,537)	\$ (238,076)
Restatement of beginning balance for GASB34 adoption	\$ 5,007,392	\$ 20,671,426	\$ 25,678,818
Net assets, beginning of year	<u>\$ 295,520</u>	<u>\$ 3,942,908</u>	<u>\$ 4,238,428</u>
Net assets, end of year	<u>\$ 5,344,991</u>	<u>\$ 24,334,179</u>	<u>\$ 29,679,170</u>

Borough of Kutztown Activities

Entity-wide total net revenues were \$13,940,292 million for the year ended December 31, 2006. Net transfers of funds from Business-Type activities accounted for 29.5% of total Government Revenue.



Revenue for all major funds



Expense for all major funds

Financial Analysis of the Government's Funds:

As noted earlier, the Borough of Kutztown uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Borough of Kutztown's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Borough of Kutztown's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2006, the Borough of Kutztown's governmental funds reported combined ending balances of \$214,262. The general fund is the chief operating fund of the Borough of Kutztown. As of December 31, 2006, the total fund balance of the general fund was \$62,027, all of which was unrestricted. This unrestricted fund balance represents approximately 1.9% of the total general fund expenditures.

Proprietary Fund

The Borough of Kutztown's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

As of December 31, 2006, the Borough of Kutztown's proprietary funds reported consolidated reserved and unrestricted balances of \$5,540,640. Of this total amount, \$2,607,481 is reserved for capital and special projects and \$2,933,159 is unrestricted. The unrestricted fund balance represents 26.7% of total business-type expenditures.

Capital Asset and Debt Administration

Capital Assets

The Borough of Kutztown's investments in capital assets for its governmental and business-type activities, as of December 31, 2006, amounts to \$37,539,268 net of accumulated depreciation. This investment in capital assets included land, buildings, improvements, park facilities, utility systems, vehicles and equipment. The total decrease in the investment in capital assets for the current fiscal year was \$568,012 net of depreciation or a 1.5% decrease. The Borough implemented Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended December 31, 2006.

Borough of Kutztown Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 1,170,478	\$ 1,292,121	\$ 2,462,599
Buildings	\$ 1,018,188	\$ 1,332,825	\$ 2,351,013
Improvements other than Buildings	\$ 4,551,134	\$ 199,853	\$ 4,750,987
Machinery and Equipment	\$ 380,929	\$ 27,593,737	\$ 27,974,666
Total	<u>\$ 7,120,729</u>	<u>\$ 30,418,536</u>	<u>\$ 37,539,265</u>

Major capital asset additions that occurred during the year included the following:

- Road improvements and curb and sidewalk construction: \$194,474
- Vehicle Purchases: \$442,117
- Utility Construction: \$261,225
- Other Assets: \$29,076

Long-Term Debt

At the end of the current fiscal year, the Borough of Kutztown had total general obligation debt outstanding of \$13,610,000 entirely backed by the full faith and credit of the government.

**Borough of Kutztown Capital Assets
Outstanding Long-Term Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Long Term Debt	<u>\$ 1,985,000</u>	<u>\$ 11,625,000</u>	<u>\$ 13,610,000</u>

Other long-term obligations include accrued vacation and sick leave.

Budget Comparison

General Fund Budget Highlights:

Annual revenues were lower than budgetary estimates by 19.3%; however, expenses were below budgetary estimates by 17.2%, resulting in a net \$77,813 unfavorable variance for the year.

The Street Lighting Grant Revenues and corresponding Capital Expenditures deferred into 2007 represent 16.0% and 15.8%, respectively, of the variances above. Additionally, portions of the net variance are attributable to Land and Subdivision expenditures which will be billed to developers in 2007.

Proprietary Fund Budget Highlights:

- Refuse and Recycling Fund – Revenues and Expenditures were 2.0% and 7.8% above budget, respectively. The net unfavorable variance of \$59,704 primarily results from larger than budgeted capital and operating costs.
- Water Fund – Revenues were 5.3% above budget and Expenditures were 4.1% below budget. The net favorable variance of \$203,647 resulted primarily from higher sales and lower capital expenditures than budget.
- Electric Fund – Revenues and Expenditures were 6.8% and 5.9% under budget, respectively. The net unfavorable variance of \$44,916 results from lower sales and cost of sales of electricity and above budget capital expenditures.
- Sewer Fund – Revenues were 6.6% above budget and Expenditures were 6.5% below budget. The net favorable variance of \$281,985 results from higher sales and lower than budget operating and capital costs.
- Telecommunications Fund – Revenues were 7.5% above budget and Expenditures were 2.3% below budget. The net favorable variance of \$116,486 results from above budget telemetering and telephone revenues.

Economic Factors and Next Year's Budget and Rates

In 2005, the Borough signed an electrical supply contract with AMP-Ohio, a non-profit wholesale power supplier, to 121 member municipal electric systems in four states. This contract was intended to provide supply and price stability within deregulated state electric markets. The success of the Borough's efforts to control electricity costs in unpredictable energy and electric markets will directly affect Electric Fund margins and its ability to continue to provide financial support to the General Fund.

Pennsylvania state law restricts municipal investments to certain governmental and financial institution debt instruments. Such investments are directly affected by market interest rate fluctuations, both long and short term.

In 2007, the Borough will negotiate a new contract with its uniformed employees.

The Borough's primary vendor for telecommunications equipment has been purchased by another company, and the new vendor is phasing out the platform that the Borough's telecommunications utility utilizes to deliver services to its customer. The Borough projects that a capital investment will be required to upgrade its telecommunications capital equipment to the vendor's new platform.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Borough's finances and to show the Borough's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Borough Finance Director at:

Borough of Kutztown
45 Railroad Street
Kutztown, PA 19530
610-683-6131

General information relating to the Borough of Kutztown, Pennsylvania, can be found at the Borough's Web site www.kutztownboro.org.

INDEPENDENT AUDITOR'S REPORT

To the Council of
Kutztown Borough
Kutztown, PA 19530

We have audited the accompanying financial statements of the government activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Kutztown Borough as of and for the year ended December 31, 2006, which collectively comprise the basic financial statements of the Borough of Kutztown. These financial statements are the responsibility of Borough's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Kutztown Borough, as of December 31, 2006 and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 and budgetary comparison information on pages 41 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Long, Barrell & Co., Ltd.".

Long, Barrell & Co., Ltd.
Certified Public Accountants
Reading, Pennsylvania

November 15, 2007

Kutztown Borough
Statement of Net Assets
December 31, 2006

	Primary Government			Component
	Government	Business	Total	Units
	Activities	Type		Authorities
		Funds		
ASSETS				
Cash and cash equivalents	\$ 419,241	\$ 4,089,250	\$ 4,508,491	\$ 192,309
Accounts receivable	15,060	1,651,577	1,666,637	196,013
Inventory	-	304,265	304,265	-
Prepaid expenses	40,358	46,378	86,736	-
Due from other funds	-	314	314	-
Loan receivable KMA	-	205,000	205,000	-
Capital assets, net of accumulated depreciation	7,120,729	30,418,539	37,539,268	414,885
Unamortized bond costs	16,500	128,000	144,500	-
Total Assets	\$ 7,611,888	\$ 36,843,323	\$ 44,455,211	\$ 803,207
LIABILITIES				
Longterm debt	\$ 1,985,000	\$ 11,625,000	\$ 13,610,000	\$ 205,000
Accounts payable	65,616	460,927	526,543	253,495
Accrued expenses	215,967	346,414	562,381	-
Customer deposits	-	23,349	23,349	-
Deferred revenues	-	53,454	53,454	-
Due to other funds	314	-	314	-
Total Liabilities	2,266,897	12,509,144	14,776,041	458,495
NET ASSETS				
Invested in capital assets net of debt	5,135,729	18,793,539	23,929,268	209,885
Restricted by tax ordinance or funding source	147,235	-	147,235	-
Reserved for capital projects and reserves	-	2,607,481	2,607,481	211,919
Unrestricted	62,027	2,933,159	2,995,186	(77,092)
Total net assets	\$ 5,344,991	\$ 24,334,179	\$ 29,679,170	\$ 344,712

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues		Primary Government		Component Unit Authorities		
	Cash Disbursements	Charges for Services	Grants and Contributions	Government Activities		Business-Type Act	Total
Primary Government							
Government Activities:							
General government	\$ (421,233)	\$ -	\$ 4,209	\$ (417,024)	-	\$ (417,024)	
Public safety	(1,727,140)	257,686	121,572	(1,347,882)	-	(1,347,882)	
Health and human services	-	-	-	-	-	-	
Highways and streets	(482,912)	14,401	78,793	(389,718)	-	(389,718)	
Culture and recreation	(433,143)	118,279	8,455	(306,409)	-	(306,409)	
Contributions	(47,890)	-	-	(47,890)	-	(47,890)	
Debt service:							
Principal	-	-	-	-	-	-	
Interest	(103,464)	-	-	(103,464)	-	(103,464)	
Capital outlay:							
Highways and streets	-	-	-	-	-	-	
Other	-	-	-	-	-	-	
Total government activities	(3,215,782)	390,366	213,029	(2,612,387)	-	(2,612,387)	
Business Type Activities							
Refuse	(701,821)	590,298	12,314	-	(99,209)	(99,209)	
Water	(1,593,881)	1,670,293	17,759	-	94,171	94,171	
Electric	(5,607,244)	6,711,118	23,766	-	1,127,640	1,127,640	
Sewer	(1,501,229)	1,714,484	15,253	-	228,508	228,508	
Telecommunications	(1,412,793)	730,620	12,260	-	(669,913)	(669,913)	
Total primary government	<u>\$(14,032,750)</u>	<u>\$ 11,807,179</u>	<u>\$ 294,381</u>	<u>(2,612,387)</u>	<u>681,197</u>	<u>(1,931,190)</u>	

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues		Primary Government		Component Unit Authorities	
	Cash Disbursements	Charges for Services	Grants and Contributions	Government Activities		Business-Type Act
Component Units						
Municipal Authorities	\$ 683,874	\$ 668,937	\$ -			\$ (14,937)
General Revenues:						
Real estate taxes				214,926	-	214,926
Transfer taxes				93,120	-	93,120
Earned income taxes				328,800	-	328,800
Motor fuel taxes				93,809	-	93,809
Other taxes				172,213	-	172,213
Licenses & permits				57,157	-	57,157
Intergovernmental funds				2,926	-	2,926
Charges for services				127,593	-	127,593
Fines and penalties				-	-	-
Rents				434,550	-	434,550
Interest				18,628	-	18,628
Miscellaneous				149,392	-	149,392
Transfers, net				961,352	(961,352)	-
Total general revenues				2,654,466	(961,352)	1,693,114
Changes in net assets				42,079	(280,155)	(238,076)
Restatement of beginning balance for GASB 34 adoption				5,007,392	20,671,426	25,678,818
Net assets - beginning				295,520	3,942,908	4,238,428
Net assets - ending				\$ 5,344,991	\$ 24,334,179	\$ 29,679,170
						\$ 344,712

The accompanying notes are an integral part of this statement.

Kutztown Borough
Balance Sheet
Government Funds
December 31, 2006

	General	Special Revenue	Other Funds	Total
ASSETS				
Cash and cash equivalents	\$ 271,989	\$ 70,117	\$ 77,135	\$ 419,241
Accounts receivable	15,060	-	-	15,060
Prepaid expenses	40,358	-	-	40,358
Due from other funds	-	-	-	-
Unamortized bond issuance costs	16,500	-	-	16,500
Total Assets	<u>\$ 343,907</u>	<u>\$ 70,117</u>	<u>\$ 77,135</u>	<u>\$ 491,159</u>
LIABILITIES				
Accounts payables	60,599	17	-	60,616
Accrued expenses	215,967	-	-	215,967
Due to other funds	314	-	-	314
Total Liabilities	<u>276,880</u>	<u>17</u>	<u>-</u>	<u>276,897</u>
FUND BALANCES				
Restricted by tax ordinance or funding source	-	70,100	77,135	147,235
Unrestricted	67,027	-	-	67,027
Total Fund Balances	<u>\$ 67,027</u>	<u>\$ 70,100</u>	<u>\$ 77,135</u>	<u>\$ 214,262</u>
<u>Reconciliation to Governmentwide Statement of Net Assets:</u>				
Total Fund Balances above	\$ 67,027	\$ 70,100	\$ 77,135	\$ 214,262
Net book value of fixed assets	7,120,729	-	-	7,120,729
Longterm debt	(1,990,000)	-	-	(1,990,000)
Net Assets of Government Activities as reported on the Statement of Net Assets	<u>\$ 5,197,756</u>	<u>\$ 70,100</u>	<u>\$ 77,135</u>	<u>\$ 5,344,991</u>

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Revenues, Expenditures and Changes in Net Assets
Government Funds
December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Other Funds</u>	<u>Totals</u>
<u>RECEIPTS</u>				
Taxes:				
Real estate taxes	\$ 50,491	\$ 164,435	\$ -	\$ 214,926
Transfer taxes	93,120	-	-	93,120
Earned income taxes	328,800	-	-	328,800
Other taxes	172,213	-	-	172,213
Licenses & permits	97,053	-	-	97,053
Intergovernmental funds	291,720	93,809	-	385,529
Charges for services	330,802	-	-	330,802
Fines and penalties	147,263	-	-	147,263
Rents	434,550	-	-	434,550
Interest	9,536	9,092	-	18,628
Contributions	5,588	-	-	5,588
Miscellaneous income	126,047	-	23,343	149,390
Total revenues	<u>2,087,183</u>	<u>267,336</u>	<u>23,343</u>	<u>2,377,862</u>
<u>DISBURSEMENTS</u>				
Salaries & wages	1,256,817	5,600	-	1,262,417
Employee benefits	496,650	-	8,209	504,859
Advertising/Public relations	26,268	-	-	26,268
Contracted services	257,490	-	-	257,490
Supplies	107,554	-	-	107,554
Repairs & maintenance	40,811	-	-	40,811
Insurance	96,320	-	-	96,320
Rentals	97,168	-	-	97,168
Utilities	115,113	-	-	115,113
Communication	63,538	-	-	63,538
Contributions	47,231	-	-	47,231
Misc expenditures	168,751	-	-	168,751
Debt service:	-	-	-	-
Principal	110,000	-	-	110,000
Interest	103,464	-	-	103,464
Capital outlay:	-	-	-	-
Highways and streets	-	95,000	-	95,000
Other	219,053	-	-	219,053
Total expenditures	<u>3,206,228</u>	<u>100,600</u>	<u>8,209</u>	<u>3,315,037</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,119,045)</u>	<u>166,736</u>	<u>15,134</u>	<u>(937,175)</u>
<u>OTHER FINANCING SOURCES(USES)</u>				
Transfers in	1,110,800	-	-	1,110,800
Transfers out	<u>(100,800)</u>	<u>(130,000)</u>	-	<u>(230,800)</u>
Total other financing sources	<u>1,010,000</u>	<u>(130,000)</u>	-	<u>880,000</u>
Net change in fund balances	(109,045)	36,736	15,134	(57,175)
Net assets - beginning	200,155	33,364	62,001	295,520
Restatement of beginning balance for GASB 34 adoption	<u>(24,083)</u>	-	-	<u>(24,083)</u>
Net assets - ending	<u>\$ 67,027</u>	<u>\$ 70,100</u>	<u>\$ 77,135</u>	<u>\$ 214,262</u>
<u>Reconciliation to Governmentwide Statement of Net Assets:</u>				
Net change in fund balances above	\$ (109,045)	\$ 36,736	\$ 15,134	\$ (57,175)
Debt service principal	110,000	-	-	110,000
Assets capitalized	218,081	95,000	-	313,081
Depreciation	<u>(323,826)</u>	-	-	<u>(323,826)</u>
Net change in fund balances of Government Activities as reported on the Statement of Activities	<u>\$ (104,790)</u>	<u>\$ 131,736</u>	<u>\$ 15,134</u>	<u>\$ 42,080</u>

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Net Assets
Business Type Funds
December 31, 2006

ASSETS

	Refuse Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	Total
Current Assets:						
Cash and cash equivalents	\$ 12,060	\$ 1,544,742	\$ 372,653	\$ 2,118,808	\$ 40,987	\$ 4,089,250
Accounts receivable	61,693	472,582	583,560	533,742	-	1,651,577
Inventory	-	47,302	256,963	-	-	304,265
Prepaid expenses	5,035	9,183	9,539	16,023	6,598	46,378
Total Current Assets	78,788	2,073,809	1,222,715	2,668,573	47,585	6,091,470
Noncurrent Assets:						
Capital assets, net of accumulated depreciation	301,246	9,249,971	2,307,833	13,369,422	5,190,067	30,418,539
Due from other funds	314	-	-	-	-	314
Loan receivable KMA	-	205,000	-	-	-	205,000
Unamortized bond costs	-	124,000	4,000	-	-	128,000
Total Noncurrent Assets	301,560	9,578,971	2,311,833	13,369,422	5,190,067	30,751,853
Total Assets	\$ 380,348	\$ 11,652,780	\$ 3,534,548	\$ 16,037,995	\$ 5,237,652	\$ 36,843,323

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Net Assets
Business Type Funds
December 31, 2006

LIABILITIES

Current Liabilities:

Accounts payable	\$ 13,681	\$ 18,060	\$ 387,534	\$ 15,163	\$ 26,489	\$ 460,927
Accrued expenses	29,823	117,953	72,823	81,506	44,309	346,414
Customer deposits	-	-	18,549	-	4,800	23,349
Deferred revenues	-	-	-	-	53,454	53,454
Total Current Liabilities	43,504	136,013	478,906	96,669	129,052	884,144

Noncurrent Liabilities:

Longterm debt	-	5,310,000	975,000	3,285,000	2,055,000	11,625,000
Total Liabilities	43,504	5,446,013	1,453,906	3,381,669	2,184,052	12,509,144

NET ASSETS

Invested in capital assets, net of related debt	301,246	3,939,971	1,332,833	10,084,422	3,135,067	18,793,539
Reserved for capital projects and reserves	-	853,880	79,490	1,674,111		2,607,481
Unrestricted	35,598	1,412,916	668,319	897,793	(81,467)	2,933,159
Total net assets	\$ 336,844	\$ 6,206,767	\$ 2,080,642	\$ 12,656,326	\$ 3,053,600	\$ 24,334,179

Reconciliation to Governmentwide Statement of Net Assets:

Total Net Assets above	\$ 336,844	\$ 6,206,767	\$ 2,080,642	\$ 12,656,326	\$ 3,053,600	\$ 24,334,179
Net Assets of Government Activities as reported on the Statement of Net Assets	\$ 336,844	\$ 6,206,767	\$ 2,080,642	\$ 12,656,326	\$ 3,053,600	\$ 24,334,179

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Revenues, Expenditures and Changes in Net Assets
Business Type Funds
For the Year Ended December 31, 2006

	Refuse Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	Total
OPERATING RECEIPTS						
Charges for Services	\$ 546,852	\$ 1,481,424	\$ 6,193,537	\$ 1,441,585	\$ 616,794	\$ 10,280,192
Interfund charges	2,922	22,243	253,414	9,891	58,458	346,928
Tapping fees	-	47,822	-	158,957	-	206,779
Intergovernment grants	3,815	-	-	-	-	3,815
Management fees	-	26,615	-	3,898	-	30,513
Miscellaneous	32,535	17,767	39,186	1,989	4,869	96,346
Rent	-	1,902	191,253	-	48,624	241,779
	<u>586,124</u>	<u>1,597,773</u>	<u>6,677,390</u>	<u>1,616,320</u>	<u>728,745</u>	<u>11,206,352</u>
OPERATING DISBURSEMENTS						
Salaries	203,810	291,933	390,358	260,056	212,454	1,358,611
Benefits	114,999	136,050	178,489	131,653	99,827	661,018
Advertising/Public relations	1,867	2,549	3,891	2,391	7,024	17,722
Contracted services	2,641	48,463	53,840	22,666	53,669	181,279
Depreciation	33,935	259,985	83,563	356,863	436,732	1,171,078
Dues & subscriptions	21	1,005	3,227	501	34	4,788
Power purchases	-	-	4,287,852	-	-	4,287,852
Engineering services	-	25,245	7,435	42,455	-	75,135
Program content purchased	-	-	-	-	254,496	254,496
Fuel	-	-	12,965	15,667	-	28,632
Landfill fees	174,036	-	-	-	-	174,036
Inflow & infiltration testing	-	-	-	-	-	-
Telemetering expense	-	5,449	47,560	5,449	-	58,458
Insurance	16,227	20,363	25,788	30,583	15,357	108,318
Legal & accounting Services	1,719	6,584	41,069	12,092	16,490	77,954
Office expenses	4,178	2,876	6,509	2,258	4,674	20,495
Protection	4,080	93,201	46,480	61,480	9,580	214,821
Rent	97,503	125,826	180,000	125,825	45,978	575,132
Repairs and maintenance	958	58,635	67,519	31,534	42,391	201,037
Supplies	11,752	5,107	58,738	3,008	2,562	81,167
Telephone	122	4,195	7,383	1,287	1,075	14,062
Training	111	1,743	4,439	2,005	3,195	11,493
Treatment & transmission	-	12,938	-	65,392	-	78,330
Uniforms	2,075	2,529	5,895	2,473	1,241	14,213
Vehicle operating expense (includes salary)	29,708	5,223	2,845	2,754	2,525	43,055
Electricity	-	88,182	-	50,754	10,359	149,295
Water services	-	8,801	704	14,557	-	24,062
	<u>699,742</u>	<u>1,206,882</u>	<u>5,516,549</u>	<u>1,243,703</u>	<u>1,219,663</u>	<u>9,886,539</u>

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Revenues, Expenditures and Changes in Net Assets
Business Type Funds
For the Year Ended December 31, 2006

	<u>Refuse Fund</u>	<u>Water Fund</u>	<u>Electric Fund</u>	<u>Sewer Fund</u>	<u>Telecom Fund</u>	<u>Total</u>
EXCESS OPERATING REVENUES OVER OPERATING EXPENSES	<u>(113,618)</u>	<u>390,891</u>	<u>1,160,841</u>	<u>372,617</u>	<u>(490,918)</u>	<u>1,319,813</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>						
Interest income	4,174	72,520	33,728	98,164	1,875	210,461
Interest expense	-	(310,391)	(48,945)	(168,769)	(134,388)	(662,493)
Minor capital Expenditures	<u>(2,079)</u>	<u>(76,608)</u>	<u>(41,750)</u>	<u>(88,757)</u>	<u>(58,742)</u>	<u>(267,936)</u>
NONOPERATING REVENUES LESS NONOPERATING EXPENSES	<u>2,095</u>	<u>(314,479)</u>	<u>(56,967)</u>	<u>(159,362)</u>	<u>(191,255)</u>	<u>(719,968)</u>
<u>TRANSFERS</u>						
Transfers in	100,800	-	-	-	305,000	405,800
Transfers out	<u>100,800</u>	<u>-</u>	<u>(1,285,800)</u>	<u>-</u>	<u>305,000</u>	<u>(1,285,800)</u>
NET TRANSFERS			<u>(1,285,800)</u>		<u>(80,000)</u>	
NET NONOPERATING REVENUES (EXPENSES)	<u>102,895</u>	<u>(314,479)</u>	<u>(1,342,767)</u>	<u>(159,362)</u>	<u>113,745</u>	<u>(1,599,968)</u>
EXCESS REVENUES OVER EXPENSES	<u>(10,723)</u>	<u>76,412</u>	<u>(181,926)</u>	<u>213,255</u>	<u>(377,173)</u>	<u>(280,155)</u>
NET ASSETS - January 1, 2006	103,108	1,094,615	941,622	1,700,969	102,594	3,942,908
Restatement of beginning balance for GASB 34 adoption	<u>244,459</u>	<u>5,035,740</u>	<u>1,320,946</u>	<u>10,742,102</u>	<u>3,328,179</u>	<u>20,671,426</u>
NET ASSETS - December 31, 2006	<u>\$ 336,844</u>	<u>\$ 6,206,767</u>	<u>\$ 2,080,642</u>	<u>\$ 12,656,326</u>	<u>\$ 3,053,600</u>	<u>\$ 24,334,179</u>

Kutztown Borough
Statement of Cash Flows
Business Type Funds
For the Year Ended December 31, 2006

	Refuse Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 549,774	\$ 1,578,104	\$ 6,446,951	\$ 1,614,331	\$ 675,252	\$ 10,864,412
Payments to employees	(318,809)	(427,983)	(568,847)	(391,709)	(312,281)	(2,019,629)
Payments for resale items	-	-	(4,287,852)	-	(108,408)	(4,396,260)
Payments to suppliers	(380,933)	(778,899)	(659,850)	(851,994)	(798,974)	(3,470,650)
Receipts from other sources	36,350	19,669	230,439	1,989	53,493	341,940
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(113,618)</u>	<u>390,891</u>	<u>1,160,841</u>	<u>372,617</u>	<u>(490,918)</u>	<u>1,319,813</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal Paid on Long-Term Borrowings	-	(105,000)	(20,000)	(210,000)	(35,000)	(370,000)
Interest Paid on Long-Term Borrowings	-	(310,391)	(48,945)	(168,769)	(134,388)	(662,493)
NET CASH USED FOR FINANCING ACTIVITIES	<u>-</u>	<u>(415,391)</u>	<u>(68,945)</u>	<u>(378,769)</u>	<u>(169,388)</u>	<u>(1,032,493)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	4,174	72,520	33,728	98,164	1,875	210,461
Principal Repayment- KMA	-	104,122	-	41,496	-	145,618
Capital expenditures	(2,079)	(76,608)	(41,750)	(88,757)	(58,742)	(267,936)
Transfers, net	100,800	-	(1,285,800)	-	305,000	(880,000)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>102,895</u>	<u>100,034</u>	<u>(1,293,822)</u>	<u>50,903</u>	<u>248,133</u>	<u>(791,857)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(10,723)</u>	<u>75,534</u>	<u>(201,926)</u>	<u>44,751</u>	<u>(412,173)</u>	<u>(504,537)</u>
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>22,783</u>	<u>1,469,208</u>	<u>574,579</u>	<u>2,074,057</u>	<u>453,160</u>	<u>4,593,787</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>\$ 12,060</u>	<u>\$ 1,544,742</u>	<u>\$ 372,653</u>	<u>\$ 2,118,808</u>	<u>\$ 40,987</u>	<u>\$ 4,089,250</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities						
Operating income	\$ (113,618)	\$ 390,891	\$ 1,160,841	\$ 372,617	\$ (490,918)	\$ 1,319,813
Increase in Depreciation & amortization	33,935	259,985	83,563	356,863	436,732	1,171,078
Net cash provided by operations	<u>\$ (79,683)</u>	<u>\$ 650,876</u>	<u>\$ 1,244,404</u>	<u>\$ 729,480</u>	<u>\$ (54,186)</u>	<u>\$ 2,490,891</u>

The accompanying notes are an integral part of this statement.

Kutztown Borough
Balance Sheet - Cash Basis
Fiduciary Funds
December 31, 2006

	Police Pension
ASSETS	
Cash and cash equivalents	\$ -
Investments, at fair value	2,676,199
	<hr/>
Total Assets	<u><u>\$ 2,676,199</u></u>
 NET ASSETS	
Held in trust for pension benefits and other uses	\$ 2,676,199
	<hr/>
Total net assets	<u><u>\$ 2,676,199</u></u>

The accompanying notes are an integral part of this statement.

Kutztown Borough
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiduciary Funds
December 31, 2006

	Police Pension
<u>CASH RECEIPTS</u>	
Contributions:	
Employer	\$ -
Employee	-
State aid	<u>71,714</u>
	<u>71,714</u>
Investment earnings:	
Interest and dividends	83,304
Realized gains (losses)	111,085
Increase (decrease) in fair value of investments	<u>98,158</u>
	292,547
Less investment expenses	<u>31,852</u>
Net investment earnings	<u>260,695</u>
Total cash receipts	<u>332,409</u>
<u>CASH DISBURSEMENTS</u>	
Benefits paid	30,148
Administrative costs	152
Capital expenditures	<u>-</u>
Total cash disbursements	<u>30,300</u>
Increase (decrease) in net assets	302,109
Net assets- beginning	<u>2,374,090</u>
Net assets - end	<u><u>\$ 2,676,199</u></u>

The accompanying notes are an integral part of this statement.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: Summary of significant accounting policies

The basic financial statements of the Kutztown Borough (Pennsylvania), have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting standards and financial reporting principles. The significant accounting principles and policies utilized by the Borough are described below:

A. Reporting Entity

Kutztown Borough is located in Berks County, PA. The Borough operates as a council/manager form of government under the Borough Code of the Commonwealth of Pennsylvania. The accompanying financial statements present the government and certain component units, entities for which the government is considered to be financially accountable. In evaluating the Borough (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the form of government have been addressed. Financial accountability is present if the Borough appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the form of government. The Kutztown Municipal Authority and the Kutztown Transportation Authority (component units) are combined and reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component units. The Kutztown Municipal Authority and the Kutztown Transportation Authority are component units of the Borough of Kutztown since the Borough has the responsibility for funding the Authorities' funding deficits and appoints members of the Authority's governing board .

Complete financial statements for the Kutztown Municipal Authority and the Kutztown Transportation Authority may be obtained at the entity's administrative offices of the Borough.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The borough reports the following major government funds:

GENERAL FUND

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

UTILITY FUNDS

The refuse, water, electric, sewer and telecommunications funds separately report the accounts for the operation, construction and financing of the individual utilities.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's business type functions and various other business type and general government functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenue to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Borough's only fiduciary fund is the police pension fund which does not have measurement focus since the fund is not available to meet current cash requirements of the Borough.

Property taxes, licenses and interest associated with the current year are considered to be susceptible to accrual and have been recognized in the current year.

Certain private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments have the option of following certain subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Borough has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. Operating

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

With the exception of Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

The government invests in obligations and agencies of the United States of America. These investments are comprised of Treasury strips, collateralized mortgage obligations, and U.S. Treasury obligations. The government recognizes interest rate risk and extension risk with some of these obligations. The government has stratified their portfolio so that the investments with extension risk are comprised of monies needed on a long-term basis. Investments with interest rate risk are selected so that the risk of interest decline below area saving's accounts rates is minimal.

The law provides that the government's Pension Trust funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the government to be prudent.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Investments for the government, as well as for its component units, are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. At December 31, 2006, all trade receivables were deemed to be fully collectible.

Property taxes are levied as of January 1 on property values assessed as of the same date. Taxes are billed February 1 and payable under the following terms: a 2% discount February through April 1; face amount April 2 through June 1; and a 10% penalty after June 1. Any unpaid bills at December 31 are subject to lien, taxes, penalties and interest are referred to the Berks County Tax Claim Bureau for collection.

3. *Inventories*

Inventories are recorded at cost, which approximates market value, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time inventory items are consumed rather than purchased.

4. *Prepaid Items*

Payments made to vendors that will benefit periods beyond the end of the current year are recorded as prepaid items.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. These assets have been valued at estimated historical cost.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and plants	50
Recreation structures	25
Roads and bridges	40
Utility distribution and collection systems	50
Lighting and traffic control devices	15
Trucks and heavy equipment	10
Vehicles	7

6. Deferred Revenue

Deferred revenue is reported in the Telecommunications Fund in connection with revenues which have been received but are not earned as of the end of the year.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are deferred and amortized over the remaining life of the related debt. If a bond issuance is refinanced, the unamortized costs are charged to expense in the year of refinancing.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 : Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Refuse Fund, Water Fund, Electric Fund, Sewer Fund, Telecommunications Fund and Highway Aid Fund. All annual appropriations lapse at fiscal year end. Budgets are shown in supplemental information.

During November, the Borough holds budget hearings for the purpose of receiving oral and written comment from interested parties in regard to the proposed budget for the following year. The Borough makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them. The board holds public hearings and a final budget must be prepared and adopted no later than December 31 through the passage of an ordinance.

All budget revisions require the approval of the Borough Council. There were no budget revisions made during the year.

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
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The budget was over expended in general fund primarily as a result of significant unanticipated and unreimbursed fees for land development and subdivision. Some of these fees were reimbursed in 2007.

Note 3: Detailed notes on all funds

A. Deposits and investments

Cash and investments as of December 31, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 4,508,491
Fiduciary funds:	
Cash and investments	<u>2,676,199</u>
Total cash and investments	<u>\$ 7,184,690</u>

Cash and investments as of December 31, 2006 consist of the following:

Cash on hand	\$ 500
Pooled investments	1,849,583
Deposits with financial institutions	2,658,408
Investments	<u>2,676,199</u>
Total cash and investments	<u>\$ 7,184,690</u>

Investments by the police pension fund as of December 31, 2006 consisted of the following:

Money market accounts	\$ 67,892
Bond funds	959,281
Managed equity funds	<u>1,649,026</u>
Total	<u>\$ 2,676,199</u>

Investments Authorized by the Entity's Investment Policy

The Borough's investment policy only authorizes investment in local government investment pools including the PA Local Government Investment Trust (PLGIT) and the Pennsylvania Invest Program for Local Governments and Nonprofits administered by the Treasurer of the Commonwealth of Pennsylvania. The Borough's investment policy does not contain any specific provisions intended to limit the Borough's exposure to **interest rate risk, credit risk, and concentration of credit risk.**

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
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The Police Pension Plan's investment plan authorizes investment in common and preferred stock, U. S. Government securities, money market funds, commercial paper and convertible security bonds with a rating of AA or better. Investment in derivatives, leveraged stock, mutual funds and foreign securities is prohibited. Purchasing on margin is also prohibited. A variety of investment managers and styles will be utilized with a range of investment of between 5% and 40% for each. Equity investments will not exceed 80% of the total portfolio and will be invested with a minimum of two managers to achieve diversification. An exchange traded fund will also be utilized to achieve diversification. A portion of the funds will also be invested with a fixed income manager.

With the exception of Pension Trust Funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Government to invest in certificates of deposit of bank, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the Company are authorized investments, as noted above.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the interest rate risk. The weighted average maturity of the investments contained in the PLGIT investment pool is approximately 43 days.

B. Receivables

Receivables as of year-end for the government's individual major funds and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

	<u>General</u>	<u>Refuse</u>	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>	<u>Telecom</u>	<u>Total</u>	<u>Authority</u>
Receivables:								
Taxes	\$ 7,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,493	\$ -
Accounts ⁴ receivable	-	61,693	472,582	583,560	533,742	-	1,651,577	196,013
Fines receivables	<u>7,567</u>	-	-	-	-	-	<u>7,567</u>	-
Gross Receivables	15,060	61,693	472,582	583,560	533,742	-	1,666,637	196,013
Less: allowance for uncollectible	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Total Receivables	<u>\$ 15,060</u>	<u>\$ 61,693</u>	<u>\$ 472,582</u>	<u>\$ 583,560</u>	<u>\$ 533,742</u>	<u>\$ -</u>	<u>\$ 1,666,637</u>	<u>\$ 196,013</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2006 was as follows:

Primary Government

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land, not being depreciated	<u>\$ 1,170,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,170,478</u>
Assets being depreciated:				
Buildings and improvements	2,356,787	-	-	2,356,787
Machinery and equipment	375,028	9,590	-	384,618
Vehicles	497,916	-	-	497,916
Infrastructure	<u>6,753,060</u>	<u>303,491</u>	<u>-</u>	<u>7,056,551</u>
Total assets being depreciated	<u>9,982,791</u>	<u>313,081</u>	<u>-</u>	<u>10,295,872</u>
Less Accumulated depreciation:				
Buildings and improvements	943,137	80,394	-	1,023,531
Machinery and equipment	253,276	43,395	-	296,671
Vehicles	279,683	34,268	-	313,951
Infrastructure	<u>2,545,699</u>	<u>165,769</u>	<u>-</u>	<u>2,711,468</u>
Total Accumulated Depreciation	<u>4,021,795</u>	<u>323,826</u>	<u>-</u>	<u>4,345,621</u>
Government Act., Net Assets	<u>\$ 7,131,474</u>	<u>\$ (10,745)</u>	<u>\$ -</u>	<u>\$ 7,120,729</u>

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Business Type Activities:

	Beginning			Ending
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Land, not being depreciated	\$ 1,292,121	\$ -	\$ -	\$ 1,292,121
Assets being depreciated:				
Buildings and improvements	2,234,672	-	-	2,234,672
Machinery and equipment	2,179,391	31,469	-	2,210,860
Vehicles	764,733	345,117	-	1,109,850
Infrastructure	36,092,779	237,225	-	36,330,004
Total assets being depreciated	41,271,575	613,811	-	41,885,386
Less Accumulated depreciation:				
Buildings and improvements	554,675	35,240	-	589,915
Machinery and equipment	833,261	253,718	-	1,086,979
Vehicles	562,421	59,539	-	621,960
Infrastructure	9,637,533	822,583	-	10,460,116
Total Accumulated Depreciation	11,587,890	1,171,080	-	12,758,970
Business Type, Net Assets	\$ 30,975,806	\$(557,269)	\$ -	\$ 30,418,537

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

Administrative	\$	33,371
Police and emergency services		31,598
Highways, traffic control devices, etc.	193,520	
Parks		<u>65,337</u>
Total	\$	<u>323,826</u>

Discretely presented component units

Activity for the Authority for the year ended December 31, 2006, was as follows:

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

<u>COMPONENT UNIT</u>	<u>Beginning Balance</u>	Increases	Decreases	<u>Ending Balance</u>
Water lines	\$ 594,545			\$ 594,545
Sewer lines	147,580			147,580
Total capital assets being depreciated	742,125	-	-	742,125
Less accumulated depreciation	319,950	7,290		327,240
Total capital assets, net	<u>\$ 422,175</u>	<u>\$ (7,290)</u>	<u>\$ -</u>	<u>\$ 414,885</u>

D. Interfund receivables, payables, charges and transfers

The composition of interfund balances as of December 31, 2006, is as follows:

Due to/from other funds:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 314
Refuse Fund	314	-
Total	<u>\$ 314</u>	<u>\$ 314</u>

Police protection charges from the general fund to the various other funds were as follows:

Refuse and recycling fund	\$ 4,080
Water fund	93,201
Electric fund	46,480
Sewer fund	61,480
Telecommunications fund	9,580
Total	<u>\$ 214,821</u>

Interfund operating transfers for the year ended December 31, 2006 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 1,110,800	\$ 312,152
Enterprise Funds	312,152	1,110,800
Total	<u>\$1,422,952</u>	<u>\$1,422,952</u>

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Rent is charged by the General, Water and Electric Funds to other funds for use of facilities constructed in one fund but used, in part by other funds. Rental income and expense is as follows:

Rental Income:

General fund	\$ 436,348
Water fund	187,006
Electric fund	<u>48,946</u>
 Total Income	 <u>\$ 672,300</u>

Rental Expense:

General fund	\$ 97,168
Refuse fund	97,503
Water fund	125,826
Electric fund	180,000
Sewer fund	125,825
Telecommunications fund	<u>45,978</u>
 Total Expense	 <u>\$ 672,300</u>

E. Long-term debt

At December 31, 2006 debt consisted of the following:

General Obligation Bonds, Series 2001A; M & T Bank, \$2,190,000, interest rates from 4.75% to 6.65% to November 2031.	\$ 2,055,000
General Obligation Bonds, Series of 2003 M & T Bank, Initial issue \$6,375,000, interest rates from 1% to 4.4% per annum until August, 2023.	5,220,000
General Obligation Bonds, Series of 2005 M & T Bank, Initial issue \$3,905,000 interest rates from 3.35% to 5% per annum until August, 2024.	3,870,000
General Obligation Bonds, Series of 2006 M & T Bank, Initial issue \$2,535,000 interest rates from 3.25% to 4.30% per annum until August, 2031.	<u>2,465,000</u>
Total	<u>\$ 13,610,000</u>

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

The following summarizes debt activity for the Borough for 2006:

	<u>January 1, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>December 31, 2006</u>	<u>One Year</u>
G O Bonds 2001	\$ 315,000	\$ -	\$ 315,000	\$ -	\$ -
G O Bonds 2001A	2,090,000	-	35,000	2,055,000	35,000
G O Bonds 2002	2,045,000	-	2,045,000	-	-
G O Bonds 2003	5,575,000	-	355,000	5,220,000	370,000
G O Bonds 2005	3,890,000	-	20,000	3,870,000	100,000
G O Bonds 2006	-	2,535,000	70,000	2,465,000	75,000
	<u>\$ 13,915,000</u>	<u>\$ 2,535,000</u>	<u>\$ 2,840,000</u>	<u>\$ 13,610,000</u>	<u>\$ 580,000</u>

Aggregate maturities required on debt at December 31, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 580,000	\$ 501,938
2008	585,000	503,539
2009	605,000	497,925
2010	615,000	497,301
2011	640,000	478,049
2012 - 2016	3,585,000	2,065,472
2017 - 2021	2,340,000	1,418,619
2022 - 2026	2,230,000	898,076
2027 - 2031	1,510,000	397,704
2032 - 2033	920,000	13,760
	<u>\$13,610,000</u>	<u>\$ 7,272,383</u>

Substantially all of the Borough's assets are pledged as collateral on the General Obligation Bonds and Notes.

Interest expense for the years ended December 31, 2006 and 2005 was \$571,940 and \$542,920 respectively.

Component Unit Debt

Component Unit Debt consists of:

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

	Municipal Authority
Mortgage payable to Borough	\$ 205,000
	\$ 205,000

The debt is scheduled for repayment in 2007 but may be delayed by mutual agreement..

Note 4 - Economic Dependency and Related Party Transactions:

In 2006 net sales of electricity to one customer amounted to \$ 1,495,256 or 23% of total electricity sales. Net sales of sewer to another customer amounted to \$ 673,381 or 23% of total water and sewer sales. Electricity purchased from one supplier amounted to \$ 4,229,388 or 98% of the total electricity purchased.

The Borough recorded water and sewer sales of \$ 765,391 and management service charges of \$ 30,342 from the Kutztown Municipal Authority in 2006.

Note 5 : Employee Retirement Plan:

- a. Plan Description** - The Municipality administers two single - employer defined benefit pension plans: Non-uniformed fulltime and regular part-time employees and fulltime police. All plans provide retirement benefits to plan members; the police plan also provides for a death benefit for surviving spouses. Plan provisions are established by municipal ordinance with the authority for Borough contributions required by Act 205 of the Commonwealth (the Act). The plans do not issue separate reports.

As of, the date of the most recent valuation (police pension January 1, 2007 and non-uniform pension plan January 1, 2005 , participants in the plans were as follows:

	Non-uniformed Employees	Police
Participants:		
Retirees and beneficiaries	17	3
Deferred vested	2	1
Active employees	48	11

- b. Summary of Significant Accounting Policies** - Financial information of the municipality's plans is presented on the cash basis of accounting. Employer contributions to each plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

the individual plan.

Investments of the plans are reported at market value. At December 31, 2006, all of the assets of the non-uniform pension plan are invested with the Pennsylvania Municipal Retirement System. The assets of the police pension plan are invested as follows:

<u>Description</u>	<u>Market Value</u>
Smith Barney Money Fund	\$ 67,892
Smith Barney Bond Fund	959,281
Smith Barney Large Value Fund	385,799
Smith Barney Growth Fund	332,209
Smith Barney Small-Mid Fund	280,187
Smith Barney ETF-Tactical Fund	<u>650,831</u>
	<u>\$2,676,199</u>

- c. Contributions and Funding Policy-** The Act requires that annual contributions are based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. The Commonwealth allocates certain funds to assist in pension funding. Any financial requirement established by the MMO which exceeds the Commonwealth allocation must be funded by the Municipality (and could include employee contributions).

For 2006, the only employee group required to contribute were non-uniform employees based upon the financial requirements. In 2006, the contribution rate was 4.50%. The Municipality contributed the funds necessary to meet the 2006 obligations of the non-uniform plan and police plan in the amount of \$ 39,969 and \$ 71,714 respectively.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

The Municipality's annual pension cost and related information for each plan for 2006 is as follows:

	<u>Non-Uniform Employees</u>	<u>Police</u>
Annual pension cost	\$ 38,007	\$ 71,714
Contributions made	\$ 38,007	\$ 71,714
Actuarial valuation date	1/1/05	1/1/07
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Close	Annual Funding Adjustment

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

	<u>Non-Uniform Employees</u>	<u>Police</u>
Asset valuation method	Market	Market
Amortization period	15 years	10 years
Actuarial assumptions:		
Investment rate of return	5.0%	7.75%
Projected salary increases	6.0%	5.50%

The Municipality has no pension obligation (NPO) as of December 31, 2006.

The assets of the non-uniform employees and the police pension plan exceed the actuarial accrued liability.

d. Trend Information

Police Pension Plan

Valuation Date	Entry Age Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of covered Payroll
	(a)	(b)	(b - a)	(a-b)	(c)	((b-a/c))
1/1/1997	1,165,904	858,552	(307,352)	135.8%	315,557	(97.4%)
1/1/1998	1,467,196					
1/1/1999	1,754,772	1,168,527	(586,245)	150.2%	371,020	(158.0%)
1/1/2000	2,160,101					
1/1/2001	2,157,140	1,385,784	(771,356)	155.7%	428,747	(179.9%)
1/1/2002	2,075,653					
1/1/2003	1,835,221	1,579,908	(255,313)	116.2%	409,478	(62.4%)
1/1/2004	2,104,517					
1/1/2005	2,241,492	2,156,776	(84,716)	103.9%	504,964	(16.8%)
1/1/2006	2,380,456					
1/1/2007	2,682,793	2,600,929	(81,864)	103.1%	675,983	(12.1%)

KUTZTOWN BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

Non-Uniform Pension Plan

1/1/1997	3,580,409	3,768,406	187,997	95.00%	1,004,403	18.7%
1/1/1999	4,528,702	4,029,348	(499,354)	112.39%	1,161,831	(42.9%)
1/1/2001	5,870,523	4,993,539	(876,984)	117.56%	1,347,530	(65.1%)
1/1/2003	6,366,907	5,306,789	(1,060,118)	119.98%	1,518,558	(69.8%)
1/1/2005	7,143,151	6,612,456	(530,695)	108.02%	1,767,222	(30.0%)

Note 6: Other information:

A. Risk management

The Borough is involved in various matters concerning pending or threatened litigation. Given the current status of pending settlements, the lawsuits in progress are expected to be settled for less than \$ 100,000 of Borough funds.

The Borough received Federal and state grants for specific purposes which are subject to review and audit by Federal and state agencies. Such audits could result in a request for reimbursement by the grantor agency in the event that an expenditure under the program is disallowed. In the opinion of Borough management, such disallowances, if any, will not be significant. During the year, the Borough received approval for a grant from the PA Department of Transportation of approximately \$ 600,000. The funds will be expended in 2006 and 2007.

The Borough Council has adopted a resolution concerning \$2,935,960 in funds which were transferred from the Electric Funds to the Telecommunications Funds for the construction of the Fiber-to-the-Home project. Under the resolution, the funds are to be repaid with interest comparable to the earnings that the Electric Funds would have earned if the funds had not been advanced. The funds are tentatively scheduled to be amortized over a period of 30 years beginning in 1999 with repayment scheduled over the last 21 years of the period. No interfund receivable or payable is reflected in the current financial statements because repayment of the funds, if any, cannot be accurately predicted.

The Borough has elected to fund unemployment compensation insurance with the Commonwealth of Pennsylvania Unemployment Compensation Fund on a reimbursable basis. Consequently, the Borough is liable to the Fund for actual benefits paid on its behalf.

During 2006, the Borough Council made a commitment to the Kutztown Community Partnership for five annual grants of \$ 5,000 to fund, in part, the operations.

The Borough entered into a lease for additional office space at a net cost of \$ 875 a month for 2006, 2007 and 2008 and \$ 925 per month for 2009 and 2010.

REQUIRED SUPPLEMENTARY INFORMATION

**Borough of Kutztown
Budget Comparison Schedule
December 31, 2006**

<u>Classification</u>	<u>Adopted Budget</u>	<u>Amended Budget</u>	<u>Actual Results</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Fund: 01 - General Fund</u>				
<u>Revenues</u>				
01 - General Fund	\$ 3,961,782	\$ 3,961,782	\$ 3,197,983	\$ (763,799)
<u>Expenditures</u>				
400 - Administration	269,382	269,382	265,806	3,576
402 - Mayor and Council	22,180	22,180	20,673	1,507
403 - Tax Collection	4,700	4,700	6,734	(2,034)
409 - Buildings and Plant	87,791	87,791	90,433	(2,642)
410 - Public Safety	1,387,871	1,387,871	1,273,846	114,025
411 - Fire Protection	61,600	61,600	52,535	9,065
412 - Ambulance/Rescue	4,100	4,100	3,512	588
413 - Community Development	211,028	211,028	238,170	(27,142)
414 - Subdivision & Land	4,000	4,000	121,822	(117,822)
415 - Emergency Management	7,336	7,336	5,656	1,680
430 - Public Works - Hwy,Rds&Str	238,614	238,614	253,203	(14,589)
431 - Cleaning Streets & Gutters	5,633	5,633	4,664	969
432 - Winter Maintenance	59,707	59,707	18,836	40,871
433 - Traffic Control Devices	29,647	29,647	31,367	(1,720)
434 - Street Lighting	677,999	677,999	94,253	583,746
435 - Sidewalks, Crosswalks	2,000	2,000	-	2,000
436 - Storm Sewer & Drains	64,350	64,350	49,602	14,748
438 - Maint & Rep-Streets & Alleys	10,173	10,173	5,873	4,300
439 - Constr&Rebld-Streets & Alleys	136,000	136,000	38,288	97,712
440 - Motor Pool	1,037	1,037	1,798	(761)
452 - Swimming Pool	118,580	118,580	115,095	3,485
454 - Parks	143,726	143,726	150,832	(7,106)
455 - Shade Trees	2,600	2,600	-	2,600
456 - Library	89,560	89,560	101,878	(12,318)
460 - Economic Development	10,000	10,000	-	10,000
470 - Debt Service	203,000	203,000	213,464	(10,464)
480 - Miscellaneous	39,600	39,600	47,887	(8,287)
492 - Interfund Operating Transfers	100,800	100,800	100,800	-
493 - Intrafund Transfers	-	-	-	-
Expenditure Total:	<u>3,993,014</u>	<u>3,993,014</u>	<u>3,307,028</u>	<u>685,986</u>
Fund Total: General Fund	<u>\$ (31,232)</u>	<u>\$ (31,232)</u>	<u>\$ (109,045)</u>	<u>\$ (77,813)</u>

The classification of revenue and expenses on these schedules is not consistent with previous statements. Amounts are presented on the cash basis without regard to GASB 34 adjustments and depreciation.

**Borough of Kutztown
Budget Comparison Schedule
December 31, 2006**

<u>Classification</u>	<u>Adopted Budget</u>	<u>Amended Budget</u>	<u>Actual Results</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Fund: 02 - Refuse and Recycling Fund</u>				
<u>Revenues</u>				
02 - Refuse and Recycling Fund	\$ 918,420	\$ 918,420	\$ 937,059	\$ (18,639)
<u>Expenditures</u>				
021 - Administration	127,692	127,692	120,052	7,640
022 - Collection and Disposal	396,092	396,092	419,659	(23,567)
023 - Recycling	103,620	103,620	125,734	(22,114)
470 - Debt Service	-	-	-	-
480 - Miscellaneous	-	-	-	-
490 - Capital Expenditures	146,700	146,700	166,442	(19,742)
491 - Other Financing Uses	100	100	-	100
493 - Intrafund Transfers	225,300	225,300	245,961	(20,661)
Expenditure Total:	<u>999,504</u>	<u>999,504</u>	<u>1,077,847</u>	<u>(78,343)</u>
Fund Total: Refuse and Recycling	<u>\$ (81,084)</u>	<u>\$ (81,084)</u>	<u>\$ (140,788)</u>	<u>\$ 59,704</u>
<u>Fund: 06 - Water Fund</u>				
<u>Revenues</u>				
06 - Water Fund	\$ 2,176,620	\$ 2,176,620	\$ 2,293,676	\$ 117,056
<u>Expenditures</u>				
061 - Administration	436,039	436,039	447,949	(11,910)
062 - Pumping and Purification	253,433	253,433	240,886	12,547
063 - Collection&Distribution Systems	301,000	301,000	242,008	58,992
470 - Debt Service	338,200	338,200	415,391	(77,191)
480 - Miscellaneous	-	-	14,466	(14,466)
490 - Capital Expenditures	229,900	229,900	111,821	118,079
491 - Other Financing Uses	2,000	2,000	1,461	539
493 - Intrafund Transfers	517,800	517,800	517,800	-
Expenditure Total:	<u>2,078,372</u>	<u>2,078,372</u>	<u>1,991,782</u>	<u>86,590</u>
Fund Total: Water Fund	<u>\$ 98,248</u>	<u>\$ 98,248</u>	<u>\$ 301,895</u>	<u>\$ 203,647</u>

The classification of revenue and expenses on these schedules is not consistent with previous statements. Amounts are presented on the cash basis without regard to GASB 34 adjustments and depreciation.

**Borough of Kutztown
Budget Comparison Schedule
December 31, 2006**

<u>Classification</u>	<u>Adopted Budget</u>	<u>Amended Budget</u>	<u>Actual Results</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Fund: 07 - Electric Fund</u>				
<u>Revenues</u>				
07 - Electric Fund	\$ 7,566,585	\$ 7,566,585	\$ 7,047,967	\$ (518,618)
<u>Expenditures</u>				
071 - Administration	672,568	672,568	623,636	48,932
072 - Buildings & Property	87,791	87,791	71,760	16,031
073 - Transmission & Power Purchase	4,966,363	4,966,363	4,336,315	630,048
074 - Distribution	318,582	318,582	370,696	(52,114)
075 - Street Lighting	4,781	4,781	5,415	(634)
460 - Economic Development	-	-	-	-
470 - Debt Service	89,900	89,900	68,945	20,955
480 - Miscellaneous	-	-	2,949	(2,949)
490 - Capital Expenditures	233,900	233,900	421,289	(187,389)
492 - Interfund Operating Transfers	1,286,622	1,286,622	1,285,800	822
493 - Intrafund Transfers	333,900	333,900	333,900	-
Expenditure Total:	<u>7,994,407</u>	<u>7,994,407</u>	<u>7,520,705</u>	<u>473,702</u>
Fund Total: Electric Fund	<u>\$ (427,822)</u>	<u>\$ (427,822)</u>	<u>\$ (472,738)</u>	<u>\$ (44,916)</u>
<u>Fund: 08 - Sewer Fund</u>				
<u>Revenues</u>				
08 - Sewer Fund	\$ 2,180,880	\$ 2,180,880	\$ 2,326,181	\$ 145,301
<u>Expenditures</u>				
081 - Administration	440,656	440,656	428,535	12,121
082 - Collection System	121,604	121,604	81,260	40,344
083 - Sewage&WastewaterTrPlant	409,502	409,502	375,763	33,739
470 - Debt Service	334,200	334,200	378,769	(44,569)
480 - Miscellaneous	-	-	-	-
490 - Capital Expenditures	222,900	222,900	127,851	95,049
493 - Intrafund Transfers	570,200	570,200	570,200	-
Expenditure Total:	<u>2,099,062</u>	<u>2,099,062</u>	<u>1,962,378</u>	<u>136,684</u>
Fund Total: Sewer Fund	<u>\$81,818</u>	<u>\$81,818</u>	<u>\$363,803</u>	<u>\$281,985</u>

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**Borough of Kutztown
Budget Comparison Schedule
December 31, 2006**

<u>Classification</u>	<u>Adopted Budget</u>	<u>Amended Budget</u>	<u>Actual Results</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Fund: 09 - Telecommunications Fund</u>				
<u>Revenues</u>				
09 - Telecommunications Fund	\$ 1,149,152	\$ 1,149,152	\$ 1,235,976	\$ 86,824
<u>Expenditures</u>				
091 - Administration	272,155	272,155	292,301	(20,146)
092 - NOC and Headend	29,541	29,541	3,482	26,059
093 - Fiber Distribution	76,559	76,559	75,956	603
094 - Cable TV	199,798	199,798	237,360	(37,562)
095 - Broadband Services	112,780	112,780	115,573	(2,793)
096 - Telephone Services	16,246	16,246	17,444	(1,198)
097 - Maxatawney Township	-	-	-	-
470 - Debt Service	169,600	169,600	169,388	212
480 - Miscellaneous	-	-	6,156	(6,156)
490 - Capital Expenditures	194,200	194,200	123,556	70,644
493 - Intrafund Transfers	194,200	194,200	194,200	-
Expenditure Total:	<u>1,265,079</u>	<u>1,265,079</u>	<u>1,235,416</u>	<u>29,663</u>
Fund Total: Telecommunications Fund	<u>\$ (115,927)</u>	<u>\$ (115,927)</u>	<u>\$ 559</u>	<u>\$ 116,486</u>

The classification of revenue and expenses on these schedules is not consistent with previous statements. Amounts are presented on the cash basis without regard to GASB 34 adjustments and depreciation.