

**REPORT ON  
BOROUGH OF KUTZTOWN  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**BOROUGH OF KUTZTOWN**

**Financial Statements**

**For the Year Ended December 31, 2016**

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**BOROUGH OF KUTZTOWN**

**Financial Statements**

**For the Year Ended December 31, 2016**

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**Borough of Kutztown**

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**FINANCIAL SECTION**

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July 13, 2017

Borough Council  
Borough of Kutztown  
45 Railroad Street  
Kutztown, PA 19530

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Kutztown, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

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

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

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

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

**Opinions**

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Kutztown at December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios, and the Schedule of Net Pension Contributions 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the remaining 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Kutztown's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the basis of accounting described in the notes to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards we have also issued our report on July 13, 2017, on our consideration of the Borough of Kutztown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Kutztown's internal control over financial reporting and compliance.

Respectfully submitted,

*Hutchinson, Gillahan & Freeh, P.C.*

July 13, 2017

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**BASIC FINANCIAL STATEMENTS**

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**BOROUGH OF KUTZTOWN**  
**Statement of Net Position**  
**As of December 31, 2016**

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	AUTHORITIES
	ACTIVITIES	ACTIVITIES		
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 1,085,089	\$ 3,934,383	\$ 5,019,472	\$ 1,134,838
Taxes Receivable	14,584	-	14,584	-
Accounts Receivable (Net)	-	1,163,724	1,163,724	69,596
Prepaid Expenses	49,213	82,464	131,677	-
Net Pension Asset	245,025	-	245,025	-
Internal Balances	140,476	1,332,102	- (1)	15,808
Due from Component Units	225	-	225	223
<b>TOTAL CURRENT ASSETS</b>	<b>1,534,612</b>	<b>6,512,673</b>	<b>6,574,707</b>	<b>1,220,465</b>
<b>NON-CURRENT ASSETS:</b>				
Land	1,170,478	1,292,121	2,462,599	-
Buildings (Net of Depreciation)	1,055,190	12,560,175	13,615,365	-
Infrastructure (Net of Depreciation)	6,576,783	-	6,576,783	906,362
Machinery and Equipment/Infrastructure (Net of Depreciation)	199,676	22,421,587	22,621,263	-
Unamortized Bond Costs	-	302,209	302,209	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>9,002,127</b>	<b>36,576,092</b>	<b>45,578,219</b>	<b>906,362</b>
<b>TOTAL ASSETS</b>	<b>\$ 10,536,739</b>	<b>\$ 43,088,765</b>	<b>\$ 52,152,926</b>	<b>\$ 2,126,827</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 546,887</b>	<b>\$ 417,894</b>	<b>\$ 964,781</b>	<b>\$ -</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Internal Balances	\$ 1,472,578	\$ -	\$ - (1)	\$ 15,808
Due to Component Unit	223	-	223	225
Sales Tax Payable	-	8,453	8,453	-
Accounts Payable	432,838	587,757	1,020,595	60,365
Accrued Salaries and Benefits	73,568	70,891	144,459	-
Bonds Payable	113,900	1,001,100	1,115,000	-
Interest Payable	7,169	177,106	184,275	-
Customer Deposits	2,435	157,325	159,760	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,102,711</b>	<b>2,002,632</b>	<b>2,632,765</b>	<b>76,398</b>
<b>NON-CURRENT LIABILITIES:</b>				
Net Other Post Employment Liability	109,457	156,393	265,850	-
Net Pension Liability	632,048	1,409,515	2,041,563	-
Bonds Payable	482,750	17,862,250	18,345,000	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,224,255</b>	<b>19,428,158</b>	<b>20,652,413</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,326,966</b>	<b>\$ 21,430,790</b>	<b>\$ 23,285,178</b>	<b>\$ 76,398</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 297,155</b>	<b>\$ 13,258</b>	<b>\$ 310,413</b>	<b>\$ -</b>
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	8,405,477	17,410,533	25,816,010	906,362
Restricted	636,400	-	636,400	319,510
Unrestricted	(1,582,372)	4,652,078	3,069,706	824,557
<b>TOTAL NET POSITION</b>	<b>\$ 7,459,505</b>	<b>\$ 22,062,611</b>	<b>\$ 29,522,116</b>	<b>\$ 2,050,429</b>

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Statement of Activities**  
**For the Year Ended December 31, 2016**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	AUTHORITIES
<b>GOVERNMENTAL ACTIVITIES:</b>								
General Government	\$ 661,157	\$ 470,489	\$ 292,546	\$ -	\$ 101,878	\$ -	\$ 101,878	
Public Safety	2,284,569	255,002	41,276	-	(1,988,291)	-	(1,988,291)	
Public Works	567,932	28,465	-	139,571	(399,896)	-	(399,896)	
Culture and Recreation	592,692	78,390	-	-	(514,302)	-	(514,302)	
Community Development	-	-	-	-	-	-	-	
Non-Departmental	59,774	-	-	-	(59,774)	-	(59,774)	
Debt Service Payments	29,463	-	-	-	(29,463)	-	(29,463)	
Depreciation	414,366	-	-	-	(414,366)	-	(414,366)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>4,609,953</b>	<b>832,346</b>	<b>333,822</b>	<b>139,571</b>	<b>(3,304,214)</b>	<b>-</b>	<b>(3,304,214)</b>	
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Electric	4,337,256	6,785,101	-	-	-	2,447,845	2,447,845	
Water	2,234,534	1,829,852	-	-	-	(404,682)	(404,682)	
Sewer	2,261,953	1,765,625	-	-	-	(496,328)	(496,328)	
Telecom	1,612,251	1,131,808	-	-	-	(480,443)	(480,443)	
Refuse	887,541	915,429	-	249,430	-	277,318	277,318	
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 15,943,488</b>	<b>\$ 13,260,161</b>	<b>\$ 333,822</b>	<b>\$ 389,001</b>	<b>\$ (3,304,214)</b>	<b>\$ 1,343,710</b>	<b>\$ (1,960,504)</b>	
<b>COMPONENT UNITS</b>								
Municipal Authorities	856,845	905,623	-	-				48,778
<b>GENERAL REVENUES:</b>								
Property Taxes Levied for General Purposes					\$ 797,930	\$ -	\$ 797,930	\$ -
Other Taxes Levied for General Purposes					646,826	-	646,826	-
Grants, Subsidies, & Contributions Not Restricted					12,624	-	12,624	-
Investment and Rental Earnings					396,773	311,968	708,741	901
Miscellaneous Income					487,280	-	487,280	1,500
Transfers					1,347,373	(1,347,373)	-	-
<b>TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS</b>					<b>3,688,806</b>	<b>(1,035,405)</b>	<b>2,653,401</b>	<b>2,401</b>
<b>CHANGE IN NET POSITION</b>					<b>384,592</b>	<b>308,305</b>	<b>692,897</b>	<b>51,179</b>
<b>NET POSITION - BEGINNING</b>					<b>7,235,570</b>	<b>21,516,396</b>	<b>28,751,966</b>	<b>1,937,073</b>
<b>PRIOR PERIOD ADJUSTMENT</b>					<b>(160,657)</b>	<b>237,910</b>	<b>77,253</b>	<b>62,177</b>
<b>NET POSITION - ENDING</b>					<b>\$ 7,459,505</b>	<b>\$ 22,062,611</b>	<b>\$ 29,522,116</b>	<b>\$ 2,050,429</b>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Balance Sheet**  
**All Governmental Funds**  
**As of December 31, 2016**

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>OTHER FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 595,677	\$ 385,404	\$ 104,008	\$ 1,085,089
Taxes Receivable	8,072	6,512	-	14,584
Prepaid Expenses	49,213	-	-	49,213
Unamortized Bond Issuance Costs	-	-	-	-
Due from Other Funds	-	140,476	-	140,476
Due from Component Units KMA & KTA	225	-	-	225
<b>TOTAL ASSETS</b>	<b><u>\$ 653,187</u></b>	<b><u>\$ 532,392</u></b>	<b><u>\$ 104,008</u></b>	<b><u>\$ 1,289,587</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Due to Other Funds	\$ 1,472,578	\$ -	\$ -	\$ 1,472,578
Due to Component Units	223	-	-	223
Customer Deposits	2,435	-	-	2,435
Accounts Payable	432,838	-	-	432,838
Accrued Salaries and Benefits	73,568	-	-	73,568
Interest Payable	7,169	-	-	7,169
<b>TOTAL LIABILITIES</b>	<b><u>1,988,811</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,988,811</u></b>
<b>FUND BALANCES:</b>				
- Nonspendable	-	140,476	-	140,476
- Restricted	-	391,916	104,008	495,924
- Committed	-	-	-	-
- Assigned	-	-	-	-
- Unassigned	(1,335,624)	-	-	(1,335,624)
<b>TOTAL FUND BALANCES</b>	<b><u>(1,335,624)</u></b>	<b><u>532,392</u></b>	<b><u>104,008</u></b>	<b><u>(699,224)</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 653,187</u></b>	<b><u>\$ 532,392</u></b>	<b><u>\$ 104,008</u></b>	<b><u>\$ 1,289,587</u></b>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**As of December 31, 2016**

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**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (699,224)**

**Amounts reported for governmental activities in the statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$17,147,075 and the accumulated depreciation is \$8,144,948. 9,002,127

Pension assets and related deferred outflows are not financial resources and , therefore, are not reported as assets in the governmental funds. 791,912

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Notes Payable	\$	(596,650)	
GASB 68 Liability		(929,203)	
Other Retirement Benefits		<u>(109,457)</u>	<u>(1,635,310)</u>

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 7,459,505**

The Accompanying Notes are an integral part of these financial statements.

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**BOROUGH OF KUTZTOWN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**For the Year Ended December 31, 2016**

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>OTHER FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>				
Taxes	\$ 1,087,075	\$ 356,143	\$ -	\$ 1,443,218
Licenses and Permits	182,725	-	-	182,725
Fines and Forfeits	133,336	-	-	133,336
Intergovernmental	335,360	139,571	-	474,931
Charges for Services	240,242	-	-	240,242
Miscellaneous	29,728	-	-	29,728
Reimbursements	276,043	-	-	276,043
Investment and Rental Earnings	394,658	1,822	293	396,773
<b>TOTAL REVENUES</b>	<u>2,679,167</u>	<u>497,536</u>	<u>293</u>	<u>3,176,996</u>
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
General Government	661,157	-	-	661,157
Public Safety	2,335,136	3,059	-	2,338,195
Public Works	1,590,029	3,433	-	1,593,462
Culture and Recreation	588,997	3,695	-	592,692
Community Development	-	-	-	-
Non-Departmental	59,773	-	-	59,773
<b>DEBT SERVICE:</b>				
Principal	118,350	-	-	118,350
Interest	29,463	-	-	29,463
<b>TOTAL EXPENDITURES</b>	<u>5,382,905</u>	<u>10,187</u>	<u>-</u>	<u>5,393,092</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(2,703,738)</u>	<u>487,349</u>	<u>293</u>	<u>(2,216,096)</u>
<b>OTHER FINANCING SOURCES</b>				
Refund of Prior Year Expenditures	1	-	-	1
Sale of Fixed Assets	-	-	-	-
Interfund Transfers In	2,906,192	-	-	2,906,192
Interfund Transfers Out	(769,313)	(789,507)	-	(1,558,820)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>2,136,880</u>	<u>(789,507)</u>	<u>-</u>	<u>1,347,373</u>
<b>NET CHANGE IN FUND BALANCES</b>	(566,858)	(302,158)	293	(868,723)
<b>FUND BALANCES - BEGINNING</b>	(753,085)	840,051	103,715	190,681
<b>PRIOR PERIOD ADJUSTMENT</b>	(15,681)	(5,501)	-	(21,182)
<b>FUND BALANCES - ENDING</b>	<u>\$ (1,335,624)</u>	<u>\$ 532,392</u>	<u>\$ 104,008</u>	<u>\$ (699,224)</u>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Reconciliation of the Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**To the Statement of Activities**  
**For the Year Ended December 31, 2016**

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**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (868,723)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

	Depreciation Expense	\$ (414,366)	
	Asset Deletions	-	
	Capital Outlays	<u>1,079,156</u>	664,790

In the statement of activities, certain operating expenses--GASB 68 Pension and OPEB Assets and Liabilities--are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

470,175

In the statement of activities, the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. This is the amount by which proceeds exceeded repayments.

118,350

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 384,592**

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Combining Statement of Net Position**  
**All Proprietary Funds**  
**As of December 31, 2016**

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and Cash Equivalents	\$ 2,373,588	\$ 286,808	\$ 720,497	\$ 95,131	\$ 458,359	\$ 3,934,383
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	674,814	152,131	149,716	103,805	83,258	1,163,724
Prepaid Expenses	18,452	17,094	26,298	14,695	5,925	82,464
Due from Other Funds	896,353	188,365	183,738	36,538	27,108	1,332,102
<b>TOTAL CURRENT ASSETS</b>	<u>3,963,207</u>	<u>644,398</u>	<u>1,080,249</u>	<u>250,169</u>	<u>574,650</u>	<u>6,512,673</u>
<b>NON-CURRENT ASSETS:</b>						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	846,314	5,857,474	5,656,488	78,300	121,599	12,560,175
Machinery and Equipment (Net of Depreciation)	1,361,623	6,650,677	10,949,089	2,951,118	509,080	22,421,587
Construction In Progress	-	-	-	-	-	-
Unamortized Bond Costs	29,854	98,560	159,091	14,704	-	302,209
<b>TOTAL NON-CURRENT ASSETS</b>	<u>2,237,791</u>	<u>13,084,118</u>	<u>17,577,960</u>	<u>3,045,544</u>	<u>630,679</u>	<u>36,576,092</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,200,998</u>	<u>\$ 13,728,516</u>	<u>\$ 18,658,209</u>	<u>\$ 3,295,713</u>	<u>\$ 1,205,329</u>	<u>\$ 43,088,765</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 113,769</u>	<u>\$ 91,654</u>	<u>\$ 81,570</u>	<u>\$ 68,591</u>	<u>\$ 62,310</u>	<u>\$ 417,894</u>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts Payable	\$ 468,719	\$ 23,631	\$ 36,879	\$ 42,587	\$ 15,941	\$ 587,757
Accrued Salaries and Benefits	20,189	14,219	14,726	11,455	10,302	70,891
Sales Tax Payable	8,410	-	-	43	-	8,453
Customer Deposits	152,825	-	-	4,500	-	157,325
Interest Payable	16,447	69,845	88,936	1,878	-	177,106
Notes Payable	188,800	474,700	192,600	145,000	-	1,001,100
<b>TOTAL CURRENT LIABILITIES</b>	<u>855,390</u>	<u>582,395</u>	<u>333,141</u>	<u>205,463</u>	<u>26,243</u>	<u>2,002,632</u>
<b>NON-CURRENT LIABILITIES:</b>						
Other Post Employment Benefits	42,577	34,301	30,527	25,669	23,319	156,393
Net Pension Liability	383,732	309,140	275,128	231,349	210,166	1,409,515
Notes Payable	2,110,500	8,170,750	7,281,000	300,000	-	17,862,250
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>2,536,809</u>	<u>8,514,191</u>	<u>7,586,655</u>	<u>557,018</u>	<u>233,485</u>	<u>19,428,158</u>
<b>TOTAL LIABILITIES</b>	<u>3,392,199</u>	<u>9,096,586</u>	<u>7,919,796</u>	<u>762,481</u>	<u>259,728</u>	<u>21,430,790</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 3,609</u>	<u>\$ 2,908</u>	<u>\$ 2,588</u>	<u>\$ 2,176</u>	<u>\$ 1,977</u>	<u>\$ 13,258</u>
<b>NET POSITION</b>						
Invested in Capital Assets, Net of Related Debt Restricted	(91,363)	4,340,108	9,945,269	2,585,840	630,679	17,410,533
Unrestricted Net Position	3,010,322	380,568	872,128	13,806	375,254	4,652,078
<b>TOTAL NET POSITION</b>	<u>\$ 2,918,959</u>	<u>\$ 4,720,676</u>	<u>\$ 10,817,397</u>	<u>\$ 2,599,646</u>	<u>\$ 1,005,933</u>	<u>\$ 22,062,611</u>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Combining Statement of Revenues, Expenses and Changes in Net Position –**  
**All Proprietary Funds**  
**For the Year Ended December 31, 2016**

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<b><u>OPERATING REVENUES</u></b>						
Charges for Services	\$ 6,714,597	\$ 1,794,780	\$ 1,725,630	\$ 1,049,971	\$ 871,463	\$ 12,156,441
Penalties	42,528	10,040	9,568	70,360	6,210	138,706
Other Fees	-	7,565	18,380	-	-	25,945
Rental Income	175,193	2,876	-	-	-	178,069
Other Income	27,976	17,467	12,047	11,477	37,756	106,723
SCADA and Equipment Lease	-	-	-	121,385	-	121,385
<b>TOTAL OPERATING REVENUES</b>	<b>6,960,294</b>	<b>1,832,728</b>	<b>1,765,625</b>	<b>1,253,193</b>	<b>915,429</b>	<b>12,727,269</b>
<b><u>OPERATING EXPENSES</u></b>						
Costs of Furnishing Utility	3,142,296	663,662	628,767	758,123	337,030	5,529,878
Employee Wages	445,182	358,645	319,187	268,397	243,822	1,635,233
Employee Benefits	205,966	154,977	142,782	107,097	115,988	726,810
Employee Pension	192,821	149,411	134,078	112,901	82,438	671,649
Insurance	85,600	135,399	114,097	29,377	24,967	389,440
Debt Service	100,913	385,745	350,087	14,759	-	851,504
Depreciation	164,478	411,967	528,120	321,597	83,296	1,509,458
<b>TOTAL OPERATING EXPENSES</b>	<b>4,337,256</b>	<b>2,259,806</b>	<b>2,217,118</b>	<b>1,612,251</b>	<b>887,541</b>	<b>11,313,972</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,623,038</b>	<b>(427,078)</b>	<b>(451,493)</b>	<b>(359,058)</b>	<b>27,888</b>	<b>1,413,297</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>						
Interest Earned	7,044	1,614	3,340	195	321	12,514
State Grants	-	-	-	-	249,430	249,430
Premium/(Discount) on Bond Issue	-	25,272	(44,835)	-	-	(19,563)
Transfers from Other Funds	-	537,946	20,918	418,506	218,509	1,195,879
Transfers to Other Funds	(2,187,227)	-	(32,679)	(46)	(323,300)	(2,543,252)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(2,180,183)</b>	<b>564,832</b>	<b>(53,256)</b>	<b>418,655</b>	<b>144,960</b>	<b>(1,104,992)</b>
<b>CHANGES IN NET POSITION</b>	<b>442,855</b>	<b>137,754</b>	<b>(504,749)</b>	<b>59,597</b>	<b>172,848</b>	<b>308,305</b>
<b>NET POSITION, JANUARY 1, 2016</b>	<b>2,336,497</b>	<b>4,386,153</b>	<b>11,604,725</b>	<b>2,388,969</b>	<b>800,052</b>	<b>21,516,396</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>139,607</b>	<b>196,769</b>	<b>(282,579)</b>	<b>151,080</b>	<b>33,033</b>	<b>237,910</b>
<b>NET POSITION, DECEMBER 31, 2016</b>	<b>\$ 2,918,959</b>	<b>\$ 4,720,676</b>	<b>\$ 10,817,397</b>	<b>\$ 2,599,646</b>	<b>\$ 1,005,933</b>	<b>\$ 22,062,611</b>

The Accompanying Notes are an integral part of these financial statements.



**BOROUGH OF KUTZTOWN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**As of December 31, 2016**

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>						
Cash Received from Users	\$ 6,696,957	\$ 1,800,572	\$ 1,720,877	\$ 994,972	\$ 895,656	\$ 12,109,034
Cash Received from Other Operating Revenue	203,169	27,908	30,427	132,862	37,756	432,122
Cash Payments to Employees for Services	(740,804)	(590,586)	(525,432)	(431,655)	(449,606)	(2,738,083)
Cash Payments to Suppliers for Goods and Services	(3,032,449)	(661,621)	(652,246)	(765,467)	(339,030)	(5,450,813)
Cash Payments to Other Operating Expenses	(188,572)	(527,188)	(468,856)	(48,185)	(24,404)	(1,257,205)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>2,938,301</b>	<b>49,085</b>	<b>104,770</b>	<b>(117,473)</b>	<b>120,372</b>	<b>3,095,055</b>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>						
(Increase) Decrease in Due from Other Funds	11,229	(180,316)	(133,953)	30,904	330,616	58,480
Increase (Decrease) in Due to Other Funds	-	(444,674)	-	(253,655)	(10,347)	(708,676)
Other Increase (Decrease)	537,613	431,944	371,185	103,287	113,460	1,557,489
Operating Transfers In	-	537,946	20,918	418,506	218,509	1,195,879
Operating Transfers Out	(2,187,227)	-	(32,679)	(46)	(323,300)	(2,543,252)
<b>NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(1,638,385)</b>	<b>344,900</b>	<b>225,471</b>	<b>298,996</b>	<b>328,938</b>	<b>(440,080)</b>
<b><u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u></b>						
Loan Principal Payments/Proceeds	(165,000)	(390,000)	(315,000)	(145,000)	-	(1,015,000)
Purchase of Fixed Assets	-	(81,339)	(292,218)	-	-	(373,557)
Sale of Fixed Assets	-	-	-	-	-	-
Interest Paid on Long-Term Borrowings	(93,350)	(297,591)	(165,000)	(14,524)	-	(570,465)
(Increase) Decrease in Unamortized Bond Costs	7,073	4,059	15,261	235	-	26,628
<b>NET CASH (USED) FOR CAPITAL FINANCING ACTIVITIES</b>	<b>(251,277)</b>	<b>(764,871)</b>	<b>(756,957)</b>	<b>(159,289)</b>	<b>-</b>	<b>(1,932,394)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>						
Earnings on Investments	7,044	1,614	3,340	705	321	13,024
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>7,044</b>	<b>1,614</b>	<b>3,340</b>	<b>705</b>	<b>321</b>	<b>13,024</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,055,683</b>	<b>(369,272)</b>	<b>(423,376)</b>	<b>22,939</b>	<b>449,631</b>	<b>735,605</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>1,317,905</b>	<b>656,080</b>	<b>1,143,873</b>	<b>72,192</b>	<b>8,728</b>	<b>3,198,778</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 2,373,588</b>	<b>\$ 286,808</b>	<b>\$ 720,497</b>	<b>\$ 95,131</b>	<b>\$ 458,359</b>	<b>\$ 3,934,383</b>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**As of December 31, 2016**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	
<b>OPERATING INCOME (LOSS)</b>	\$ 2,623,038	\$ (427,078)	\$ (451,493)	\$ (359,058)	\$ 27,888	\$ 1,413,297
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>						
Depreciation	164,478	411,967	528,120	321,597	83,296	1,509,458
<b>CHANGE IN ASSETS AND LIABILITIES:</b>						
(Increase) Decrease in Accounts Receivable	(161,752)	(4,248)	(14,321)	(38,354)	17,983	(200,692)
(Increase) Decrease in Prepaid Expenses	(2,549)	(4,867)	(4,801)	(4,049)	563	(15,703)
(Increase) Decrease in Deferred Outflows	(80,751)	(62,075)	(56,118)	(45,891)	(35,826)	(280,661)
Increase (Decrease) in Accounts Payable	109,847	2,041	(23,479)	(7,344)	(2,000)	79,065
Increase (Decrease) in Accrued Salaries and Benefits	(49,689)	(41,482)	(32,928)	(28,397)	(35,990)	(188,486)
Increase (Decrease) in Sales Tax Payable	8,410	-	-	43	-	8,453
Increase (Decrease) in Interest Payable	490	(1,177)	129	-	-	(558)
Increase (Decrease) in GASB 68 Pension and OPEB Liability	237,659	179,961	162,983	134,120	68,627	783,350
Increase (Decrease) in Deferred Inflows	(4,054)	(3,957)	(3,322)	(3,092)	(4,169)	(18,594)
Increase (Decrease) in Customer Deposits	93,174	-	-	(87,048)	-	6,126
<b>TOTAL ADJUSTMENTS</b>	<u>315,263</u>	<u>476,163</u>	<u>556,263</u>	<u>241,585</u>	<u>92,484</u>	<u>1,681,758</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 2,938,301</u>	<u>\$ 49,085</u>	<u>\$ 104,770</u>	<u>\$ (117,473)</u>	<u>\$ 120,372</u>	<u>\$ 3,095,055</u>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Statement of Net Position**  
**Fiduciary Funds**  
**As of December 31, 2016**

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	<b>POLICE PENSION TRUST FUNDS</b>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 209,269
Investments, at Fair Value	4,846,507
<b>TOTAL ASSETS</b>	<b><u>\$ 5,055,776</u></b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 \$ -
<b><u>LIABILITIES</u></b>	
Pension Taxes Payable	\$ 23,366
<b>TOTAL LIABILITIES</b>	<b><u>\$ 23,366</u></b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 \$ -
 <b><u>NET POSITION</u></b>	
Restricted for Employee Benefits	5,032,410
<b>TOTAL NET POSITION</b>	<b><u>\$ 5,032,410</u></b>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Statement of Additions, Deductions and Changes in Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2016**

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	<u><b>PENSION BENEFIT TRUST FUNDS</b></u>
<b>ADDITIONS:</b>	
State Aid	\$ 85,978
Employee Contributions	48,649
Miscellaneous	256
<b>INVESTMENT EARNINGS:</b>	
Interest and Dividends	108,042
Realized Gains (Losses)	(74,496)
Change in Fair Value of Investments	228,296
<b>TOTAL ADDITIONS</b>	<u>396,725</u> -----
 <b>DEDUCTIONS:</b>	
Administrative Charges	9,049
Investment Expenses	47,826
Employee Benefits	193,096
<b>TOTAL DEDUCTIONS</b>	<u>249,971</u>
 <b>CHANGES IN NET POSITION</b>	 146,754
 <b>NET POSITION - BEGINNING OF YEAR</b>	 <u>4,885,656</u>
 <b>NET POSITION - END OF YEAR</b>	 <u><b>\$ 5,032,410</b></u>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2016**

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
<b>RESOURCES (INFLOW):</b>						
Taxes	\$ 973,900	\$ 973,900	\$ 1,087,075	\$ 113,175	\$ -	\$ 1,087,075
Licenses and Permits	184,900	184,900	182,725	(2,175)	-	182,725
Fines and Forfeits	161,000	161,000	133,336	(27,664)	-	133,336
Intergovernmental	263,150	263,150	335,360	72,210	-	335,360
Charges for Services	228,900	228,900	240,242	11,342	-	240,242
Miscellaneous	45,500	45,500	29,728	(15,772)	-	29,728
Reimbursements	150,301	150,301	276,043	125,742	-	276,043
Investment and Rental Earnings	426,600	426,600	394,658	(31,942)	-	394,658
Refund of Prior Year Expenditures	100	100	1	(99)	-	1
Transfers from Other Funds	2,290,397	2,290,397	2,906,192	615,795	-	2,906,192
<b>TOTAL RESOURCES</b>	<b>4,724,748</b>	<b>4,724,748</b>	<b>5,585,360</b>	<b>860,612</b>	<b>-</b>	<b>5,585,360</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>						
<b>General Government</b>						
Legal	9,000	9,000	156,525	(147,525)	-	156,525
Mayor, Legislative, Borough Manager	287,557	287,557	297,295	(9,738)	-	297,295
Finance and Accounting	28,634	28,634	36,090	(7,456)	-	36,090
Tax Collection	8,260	8,260	2,925	5,335	-	2,925
Engineering	500	500	18,121	(17,621)	-	18,121
Buildings and Plant	204,373	204,373	150,201	54,172	-	150,201
<b>Public Safety</b>						
Police	1,919,553	1,919,553	1,882,951	36,602	-	1,882,951
Fire and Ambulance	64,194	64,194	95,639	(31,445)	-	95,639
Inspections & Permits	358,064	358,064	352,379	5,685	-	352,379
Emergency Management	3,400	3,400	4,167	(767)	-	4,167
<b>Public Works</b>						
Street Maintenance and Lighting	986,168	986,168	1,590,029	(603,861)	-	1,590,029
<b>Culture and Recreation</b>						
Parks and Pool	602,048	602,048	588,997	13,051	-	588,997
<b>Non-Departmental</b>						
Debt Service	192,000	192,000	147,813	44,187	-	147,813
Miscellaneous	60,997	60,997	59,773	1,224	-	59,773
Transfer to Other Funds	-	-	769,313	(769,313)	-	769,313
<b>TOTAL CHARGES TO APPROPRIATIONS</b>	<b>4,724,748</b>	<b>4,724,748</b>	<b>6,152,218</b>	<b>(1,427,470)</b>	<b>-</b>	<b>6,152,218</b>
Excess (Deficiency) of Inflows Over Outflows	-	-	(566,858)	(566,858)	-	(566,858)
<b>FUND BALANCE - JANUARY 1, 2016</b>	<b>-</b>	<b>-</b>	<b>(753,085)</b>	<b>(753,085)</b>	<b>-</b>	<b>(753,085)</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>(15,681)</b>	<b>(15,681)</b>	<b>-</b>	<b>(15,681)</b>
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,335,624)</b>	<b>\$ (1,335,624)</b>	<b>\$ -</b>	<b>\$ (1,335,624)</b>

The Accompanying Notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**Note 1 – Significant Accounting Policies**

The basic financial statements of the Borough of Kutztown (Pennsylvania) have been prepared in conformity with accounting principles general 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:

***Reporting Entity***

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Borough are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Borough.

Borough of Kutztown 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 imposes 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 they are legally separate from the government.

***Discretely Presented Components 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.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Borough have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

***A. Basis of Presentation***

The Borough's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Borough at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental activities and for four business-type activities of the Borough. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the Borough.

**Fund Financial Statements** During the year, the Borough segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Borough at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-Exchange Transactions.** Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Borough receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used for a specified purpose, and expenditure requirements, in which the Borough must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**C. Fund Accounting**

The Borough uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Borough's **major** governmental funds:

General Fund

The General Fund is the general operating fund of the Borough. Substantially all tax revenues, Federal and State aid (except aid restricted for use in Special Revenue Funds) and other operating revenues are accounted for in the General Fund. This Fund also accounts for expenditures and transfers as appropriated in the budget which provides for the Borough's day-to-day operations.

**Proprietary Funds** Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Borough's **major** enterprise funds are:

*Electric Fund* This fund accounts for the financial transactions related to providing electricity to the residents of the Borough.

*Water Fund* This fund accounts for the financial transactions related to providing water services to the residents of the Borough.

*Sewer Fund* This fund accounts for the financial transactions related to providing waste water to the residents of the Borough.

*Telecom Fund* This fund accounts for the financial transactions related to providing phone, cable and internet services to the residents of the Borough.

The Borough applies Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989 to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements.

**Fiduciary Funds** Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough has one (1) trust fund, consisting of the Police Pension Fund, and do not involve measurement of results of operations.



**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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***D. Measurement Focus***

***Government-wide Financial Statements.*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Borough are included on the statement of net assets.

***Fund Financial Statements.*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***E. Budgets and Budgetary Accounting***

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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 the supplemental information.
2. During November and December, the Borough holds budget hearings for the purposes 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. Depreciation expense is not included in the budget.
3. For the year, expenditures and other uses exceeded appropriations in the general, waste, and telecommunication funds. Expenditures exceeded revenues in the general, highway aid and sewer funds. Adequate fund balance surpluses exist in the above funds to cover budget or operating deficits.

***Encumbrances***

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, expect that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the Borough's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Any encumbrances are presented as a reservation for encumbrances on the balance sheet of the General Fund. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the Borough's legally adopted budget.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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***F. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***G. Assets, Liabilities and Net Assets***

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

*Investments*

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Invest Program) are recorded at the pool's share price.

*Receivables and Payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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.

*Inventories*

Inventory type items for the Borough are recorded using the purchase method; that is, they are charged as an expense when purchased; therefore, there is no inventory shown on the Balance Sheet.

*Real Estate Taxes*

The total taxable assessed real estate valuation for the year ended 2016 is \$191,698,600 at a rate of 4.1 mills. Real estate taxes are levied on March 1 and are payable by June 30.

Real estate taxes paid by April 30 are subject to a 2% discount and after June 30 are subject to a 10% penalty. Delinquent real estate taxes are generally lienied by January 1 of the following year.

*Fund Balance Classifications*

GASB Statement No 54, effective for financial statements for periods beginning after June 14, 2010, established accounting and financial reporting standards for all governments that report governmental funds. The statement established criteria for classifying fund balances into the following specifically defined classifications:

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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- **Non-spendable** fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Borough's highest level of decision making is the Borough Council.
- **Assigned** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

*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 useful lives:

Assets	Years
Building 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

*Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period not recognized as an outflow of resources until that future period.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period not recognized as an inflow of resources until that future period.

*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 or proprietary fund type statement of net assets.

*Reclassification*

Certain amounts have been reclassified to conform to the December 31, 2016, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements on the modified accrual basis of accounting.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Borough applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Note 3 – Reconciliation of government-wide and fund financial statements**

*A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.*

The governmental fund balance sheet includes a reconciliation between “fund balance-total governmental funds” and “net assets – governmental activities” as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in government activities are not financial resources and therefore are not reported as assets in governmental funds”. The cost of the capital assets net of depreciation totals \$9,002,217. The difference of \$470,175 is related to changes in GASB 68 pension adjustments. Another element of the reconciliation explains that “long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds”.

*B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities*

Due to the difference in the measurement focus and basis of accounting used on the governmental fund statements and borough-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of two broad categories. The amounts shown in the columns on the following page represent:

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b) Capital related differences include: (1) the differences between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities; and, (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

Explanation of Differences between Governmental Fund Statements and Borough-Wide Statements

	TOTAL GOVERNMENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANSACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
<b>REVENUES AND OTHER SOURCES</b>					
<b>LOCAL SOURCES:</b>					
Property Taxes	\$ 797,930	\$ -	\$ -	\$ -	\$ 797,930
Other Taxes Levied for General Purposes	646,826	-	-	-	646,826
Grants, Subsidies & Contributions	12,624	-	-	-	12,624
Investment and Rental Earnings	396,773	-	-	-	396,773
Miscellaneous	17,104	470,175	-	-	487,279
Charges for Services	832,346	-	-	-	832,346
Refund of Prior Years Expense	1	-	-	-	1
Transfers In	2,906,192	-	-	-	2,906,192
<b>STATE SOURCES:</b>					
Operating Grants and Contributions	473,393	-	-	-	473,393
<b>FEDERAL SOURCES:</b>					
Operating Grants and Contributions	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>6,083,189</b>	<b>470,175</b>	<b>-</b>	<b>-</b>	<b>6,553,364</b>
<b>EXPENDITURES/EXPENSES AND OTHER USES</b>					
General Government	661,157	-	-	-	661,157
Public Safety	2,338,195	-	(53,626)	-	2,284,569
Public Works	1,593,462	-	(1,025,530)	-	567,932
Culture and Recreation	592,692	-	-	-	592,692
Community Development	-	-	-	-	-
Non-Departmental	59,773	-	-	-	59,773
Debt Service Payments	147,813	-	-	(118,350)	29,463
Depreciation	-	-	414,366	-	414,366
Transfers Out	1,558,820	-	-	-	1,558,820
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>6,951,912</b>	<b>-</b>	<b>(664,790)</b>	<b>(118,350)</b>	<b>6,168,772</b>
<b>NET CHANGE FOR THE YEAR</b>	<b>\$ (868,723)</b>	<b>\$ 470,175</b>	<b>\$ 664,790</b>	<b>\$ 118,350</b>	<b>\$ 384,592</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**Note 4 - Cash**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a policy for custodial credit risk. As of December 31, 2016, \$2,876,436 of the Borough's bank balance of \$3,335,704 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the Borough's name		2,876,436
<b>TOTAL</b>	<b>\$</b>	<b><u>2,876,436</u></b>

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$	2,876,436
Plus: Insured Amount		459,269
Deposit in Transit		135,320
Less: Outstanding Checks		<u>(259,604)</u>
Carrying Amount - Bank Balances		3,211,421
Plus: Petty Cash		900
Deposits in Investment Pool Considered Cash Equivalents		2,010,519
Deposits in Money Market Mutual Funds Considered Cash Equivalent		<u>5,901</u>
<b>TOTAL CASH PER FINANCIAL STATEMENTS</b>	<b>\$</b>	<b><u>5,228,741</u></b>

Restricted Cash

The cash balance includes \$209,269 held for pension benefits.

**Note 5 - Investments**

The permitted investments for Pennsylvania Boroughs are defined in the Borough Code as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
5. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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6. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
7. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
8. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
  - The investments of the company are the authorized investments listed above.
  - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
  - The investment company is rated in the highest category by a nationally recognized rating agency.
10. Savings or demand deposits placed in accordance with the following conditions:
  - The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
  - The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, or the account of the public corporation or municipal authority.
  - The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
  - On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

*Pension Trust Funds*

The Police Pension Plan's investment plan authorizes investment in common and preferred stock, U.S. Government securities, money market funds, international equities traded as ADRs, non-leveraged exchange traded funds, commercial paper and convertible security bonds with an average rating of AA.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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Assets or transactions expressly prohibited include selling short, letter stock, margin purchases, and leveraged exchanged traded funds. A variety of investment managers and styles will be utilized with varying ranges of investment.

The fund will uses a mixture of stocks and bonds to achieve the overall objective of growth exceeding the inflation rate. The fund will be measured against a target return of 7.5% per year (actuarial assumption). The fund will be expected to out-perform this target return over a complete market cycle of 3 to 5 years. Equity investments will range between 35% and 65% of the total portfolio. An exchange traded fund will be utilized to achieve diversification. A portion of the funds will also be invested within a money market account and a fixed income manager.

*Fair Value Reporting*

The Borough 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs. All investments of the Borough are categorized as Level 1 inputs.

*Interest Rate Risk*

The Borough 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.

*Credit Risk*

The Borough has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2016, the Borough's significant investments were rated as:

<u><i>Investments</i></u>	<u><i>Standard &amp; Poor's</i></u>
PLGIT / PA Invest Pool	AAA
Common Stocks	Not Available
ETFs & CEFs	Not Available
Municipal Bonds	Not Available
Corporate Bonds	Not Available
U.S. Government Agency Bonds	Not Available

*Concentration of Credit Risk*

The Borough's investment policy only authorizes investment in local government investment pools including the PA Local Government Investment Trust (PGLIT) and the Pennsylvania Invest Program for Local Governments and Non-Profits administered by the Treasurer of the Commonwealth of Pennsylvania. 100% of the Borough's Governmental and Proprietary investments consisted of PLGIT and PA Invest Pool investments. No more than 5% of the Police Pension Trust Fund were invested in any one security, ETF, CEF or Bonds of any type. A diverse portfolio of Common Stocks, ETFs & CEFs, Municipal Bonds, Corporate bonds, and U.S. Government Agency Bonds represent 40.96%, 34.38%, 15.20%, 3.4%, and 6.0%, respectively represent the Police Pension Trust Funds investments.



**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Borough has no investments subject to custodial credit risk.

Foreign Currency Risk

The Police Pension Trust Fund does not include investments in international equities trades as ADRs and, therefore, has no exposure to foreign currency risk.

Reconciliation to Financial Statements

Total Investments Above	\$ 6,862,927
Less: Deposits in Investment Pool Considered Cash Equivalents	(2,016,420)
<b>Total Investments Per Financial Statements</b>	<b>\$ 4,846,507</b>

Restricted Investments

The investments include \$4,846,507 held for future pension obligation for the police pension plan.

**Note 6 - Receivables**

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

	General Fund	Non- Major Funds	Electric Fund	Water Fund	Sewer Fund	Telecom Fund	Refuse Fund	Component Unit	Total
<b>Receivables</b>									
Taxes	\$ 8,072	\$ 6,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,584
Accounts	-	-	674,814	152,131	149,716	103,805	83,258	69,596	1,233,320
Intergovernmental	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Gross Receivables</b>	<b>8,072</b>	<b>6,512</b>	<b>674,814</b>	<b>152,131</b>	<b>149,716</b>	<b>103,805</b>	<b>83,258</b>	<b>69,596</b>	<b>1,247,904</b>
Less: Allowance for Uncollectibles	-	-	-	-	-	-	-	-	-
<b>Net Receivables</b>	<b>\$ 8,072</b>	<b>\$ 6,512</b>	<b>\$ 674,814</b>	<b>\$ 152,131</b>	<b>\$ 149,716</b>	<b>\$ 103,805</b>	<b>\$ 83,258</b>	<b>\$ 69,596</b>	<b>\$ 1,247,904</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

**Note 7 – Capital Assets**

Capital asset balances and activity for the year ending December 31, 2016, were:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets not being depreciated:				
Land	\$ 1,170,478	\$ -	\$ -	\$ 1,170,478
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets not being depreciated	1,170,478	-	-	1,170,478
Capital Assets being Depreciated:				
Buildings	2,343,170	-	-	2,343,170
Machinery, Equipment and Vehicles	1,541,872	53,625	-	1,595,497
Infrastructure	<u>11,012,400</u>	<u>1,025,530</u>	<u>-</u>	<u>12,037,930</u>
Total Capital Assets being depreciated	<u>14,897,442</u>	<u>1,079,155</u>	<u>-</u>	<u>15,976,597</u>
Less: Accumulated Depreciation for:				
Buildings	(1,214,042)	(73,940)	-	(1,287,982)
Machinery, Equipment and Vehicles	(1,316,015)	(79,804)	-	(1,395,819)
Infrastructure	<u>(5,200,525)</u>	<u>(260,622)</u>	<u>-</u>	<u>(5,461,147)</u>
Total Accumulated Depreciation	<u>(7,730,582)</u>	<u>(414,366)</u>	<u>-</u>	<u>(8,144,948)</u>
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>7,166,860</u>	<u>664,789</u>	<u>-</u>	<u>7,831,649</u>
<b>Governmental Activities Capital Assets, Net of Accumulated Depreciation</b>	<b><u>\$ 8,337,338</u></b>	<b><u>\$ 664,789</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,002,127</u></b>
<b>Business-Type Activities:</b>				
Capital Assets not being depreciated:				
Land	\$ 1,292,121	\$ -	\$ -	\$ 1,292,121
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets not being depreciated	1,292,121	-	-	1,292,121
Capital Assets being Depreciated:				
Buildings	1,767,271	-	-	1,767,271
Machinery, Equipment and Vehicles	46,135,323	229,717	-	46,365,040
Infrastructure	<u>12,200,072</u>	<u>333,832</u>	<u>-</u>	<u>12,533,904</u>
Total Capital Assets being depreciated	<u>60,102,666</u>	<u>563,549</u>	<u>-</u>	<u>60,666,215</u>
Less: Accumulated Depreciation for:				
Buildings	(639,938)	(40,892)	-	(680,830)
Machinery, Equipment and Vehicles	(22,737,434)	(1,206,019)	-	(23,943,453)
Infrastructure	<u>(797,624)</u>	<u>(262,546)</u>	<u>-</u>	<u>(1,060,170)</u>
Total Accumulated Depreciation	<u>(24,174,996)</u>	<u>(1,509,457)</u>	<u>-</u>	<u>(25,684,453)</u>
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>35,927,670</u>	<u>(945,908)</u>	<u>-</u>	<u>34,981,762</u>
<b>Business-Type Activities Capital Assets, Net of Accumulated Depreciation</b>	<b><u>\$ 37,219,791</u></b>	<b><u>\$ (945,908)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 36,273,883</u></b>

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated                    **\$ 414,366**

The depreciation was charged to the business-type activities as follows:

Depreciation – Unallocated                    **\$1,509,457**

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**Note 8 – Short-Term Debt**

*Interfund Receivables and Payables*

The following Interfund receivable and payables were in existence as of December 31, 2016.

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 1,472,578
Fire Protection Tax Fund (Special Revenue)	11,490	-
Recreation Tax Fund (Special Revenue)	51,162	-
Road Tax Fund (Special Revenue)	77,824	-
Refuse Fund (Enterprise)	27,108	-
Water Fund (Enterprise)	188,365	-
Electric Fund (Enterprise)	896,353	-
Sewer Fund (Enterprise)	183,738	-
Telecom Fund (Enterprise)	36,538	-
<b>TOTAL</b>	<b>\$ 1,472,578</b>	<b>\$ 1,472,578</b>

*Interfund Transfers*

The Borough also made the following interfund transfers during the year ended December 31, 2016.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,906,192	\$ 769,313
Fire Protection Tax Fund (Special Revenue)	-	13,640
Recreation Tax Fund (Special Revenue)	-	46,000
Road Tax Fund (Special Revenue)	-	429,866
Highway Aid Fund (Special Revenue)	-	300,000
Refuse Fund (Enterprise)	218,509	323,300
Water Fund (Enterprise)	537,946	-
Electric Fund (Enterprise)	-	2,187,227
Sewer Fund (Enterprise)	20,918	32,679
Telecom Fund (Enterprise)	418,506	46
<b>TOTAL</b>	<b>\$ 4,102,071</b>	<b>\$ 4,102,071</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

**Note 9 – Long-Term Debt Commitment**

Long-Term Liability balances and activity for the year ended December 31, 2016, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Yr
<b>Governmental Activities:</b>					
Bonds Payable					
Capital Projects	\$ 715,000	\$ 551,650	\$ 670,000	\$ 596,650	\$ 113,900
<b>Total Governmental Activities</b>					
<b>Long-Term Liabilities</b>	<b>\$ 715,000</b>	<b>\$ 551,650</b>	<b>\$ 670,000</b>	<b>\$ 596,650</b>	<b>\$ 113,900</b>
<b>Business-Type Activities</b>					
Bonds Payable					
Capital Projects	\$ 19,470,000	\$ 9,258,350	\$ 9,865,000	\$ 18,863,350	\$ 1,001,100
<b>Total Business-Type Activities</b>					
<b>Long-Term Liabilities</b>	<b>\$ 19,470,000</b>	<b>\$ 9,258,350</b>	<b>\$ 9,865,000</b>	<b>\$ 18,863,350</b>	<b>\$ 1,001,100</b>

Payments on bonds are made by the General Fund, Water Fund, Electric Fund, Sewer Fund and the Telecom Fund.

Total interest paid during the year:

<b>Governmental Activities</b>		<b>Paid</b>
General Obligation Bonds		\$ 18,370
<b>Total Interest Paid By Governmental Activities</b>		<b>\$ 18,370</b>
<b>Business-Type Activities</b>		<b>Paid</b>
General Obligation Bonds		\$ 569,905
<b>Total Interest Paid by Business-Type Activities</b>		<b>\$ 569,905</b>

The total interest cost incurred and charged to expense in 2016 was \$588,275.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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***Long-Term Debt***

At December 31, 2016, debt consisted of the following:

General Obligation Bonds, Series 2013A; M&T Bank, Initial issue \$2,835,000 interest rates from 1.038% to 4.962% per annum until November, 2031.	\$ 2,250,000
General Obligation Bonds, Series of 2013B M&T Bank, Initial issue \$5,570,000 interest rates from 0.350% to 4.0% per annum until November, 2037.	4,985,000
General Obligation Bonds, Series of 2011A M&T Bank, Initial issue \$6,540,000 interest rates from 3.625% per annum until August, 2024. During the 2016 year, \$3,185,000 of the outstanding bonds were refinanced into the General Obligations Bonds Series of 2016A.	-
General Obligation Bonds Series of 2011B M&T Bank, Initial issue \$8,730,000 interest rates from 4.125% to 5% per annum until August, 2032. During the 2016 year, \$6,160,000 of the outstanding bonds were refinanced into the General Obligation Bonds - Series of 2016.	2,415,000
General Obligation Bonds, Series of 2016, M&T Bank, Initial issue \$6,565,000 interest rates from 1.00% to 2.800% per annum until August, 2032.	6,565,000
General Obligation Bonds, Series of 2016A, M&T Bank, Initial issue \$3,245,000 interest rates from 0.950% to 2.000% per annum until August, 2024.	3,245,000
<b>TOTAL</b>	<b>\$ 19,460,000</b>

At December 31, 2016, the division of debt between the governmental and business-type activities was as follows:

Governmental	\$ 596,650
Business-Type	18,863,350
<b>Total</b>	<b>\$ 19,460,000</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

The following summarizes debt activity for the Borough for 2016:

	Outstanding January 1, 2016	Issued	Retired	Outstanding December 31, 2016	Due in One Year
General Obligation Bonds 2013A	\$ 2,485,000	\$ -	\$ 235,000	\$ 2,250,000	\$ 240,000
General Obligation Bonds 2013B	5,160,000	-	175,000	4,985,000	180,000
General Obligation Bonds 2011A	3,945,000	-	3,945,000	-	-
General Obligation Bonds 2011B	8,595,000	-	6,180,000	2,415,000	20,000
General Obligation Bonds 2016	-	6,565,000	-	6,565,000	5,000
General Obligation Bonds 2016A	-	3,245,000	-	3,245,000	670,000
<b>Total</b>	<b>\$ 20,185,000</b>	<b>\$ 9,810,000</b>	<b>\$ 10,535,000</b>	<b>\$ 19,460,000</b>	<b>\$ 240,000</b>

Aggregate maturities required on debt at December 31, 2016 are as follows:

Fiscal Year	Principal	Interest
2017	\$ 1,115,000	\$ 542,526
2018	1,155,000	524,147
2019	1,220,000	505,573
2020	1,080,000	478,735
2021	1,115,000	455,412
2022-2026	5,235,000	1,907,187
2027-2031	6,025,000	1,109,295
2032-2036	2,190,000	268,885
2037	325,000	13,000
<b>TOTAL</b>	<b>\$ 19,460,000</b>	<b>\$ 5,804,760</b>

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

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

*Combined Long-Term Debt*

The combined general long-term debt obligations for subsequent years are:

Principal Requirements Fiscal Year	GOB Series 2011B	GOB Series 2013A	GOB Series 2013B	GOB Series 2016	GOB Series 2016A	Total Payments
2017	\$ 20,000	\$ 240,000	\$ 180,000	\$ 5,000	\$ 670,000	\$ 1,115,000
2018	20,000	245,000	185,000	240,000	465,000	1,155,000
2019	20,000	250,000	190,000	345,000	415,000	1,220,000
2020	15,000	100,000	190,000	350,000	425,000	1,080,000
2021	25,000	105,000	195,000	360,000	430,000	1,115,000
2022-2026	565,000	580,000	1,050,000	2,200,000	840,000	5,235,000
2027-2031	1,425,000	730,000	1,215,000	2,655,000	-	6,025,000
2032-2036	325,000	-	1,455,000	410,000	-	2,190,000
2037	-	-	325,000	-	-	325,000
<b>TOTAL</b>	<b>\$ 2,415,000</b>	<b>\$ 2,250,000</b>	<b>\$ 4,985,000</b>	<b>\$ 6,565,000</b>	<b>\$ 3,245,000</b>	<b>\$ 19,460,000</b>
<b>Less: Payable Within One Year</b>	<b>20,000</b>	<b>240,000</b>	<b>180,000</b>	<b>5,000</b>	<b>670,000</b>	<b>1,115,000</b>
<b>Long-Term Debt Outstanding</b>	<b>\$ 2,395,000</b>	<b>\$ 2,010,000</b>	<b>\$ 4,805,000</b>	<b>\$ 6,560,000</b>	<b>\$ 2,575,000</b>	<b>\$ 18,345,000</b>

Principal and Interest Requirements Fiscal Year	GOB Series 2011B	GOB Series 2013A	GOB Series 2013B	GOB Series 2016	GOB Series 2016A	Total Payments
2017	\$ 110,049	\$ 327,750	\$ 339,695	\$ 153,817	\$ 726,215	\$ 1,657,526
2018	109,649	327,321	341,095	388,767	512,315	1,679,147
2019	109,219	325,800	342,395	490,959	457,200	1,725,573
2020	103,744	168,437	338,595	489,059	458,900	1,558,735
2021	113,346	170,192	339,415	492,059	455,400	1,570,412
2022-2026	989,094	838,655	1,700,350	2,742,888	871,200	7,142,187
2027-2031	1,664,549	841,854	1,705,600	2,922,292	-	7,134,295
2032-2036	338,405	-	1,699,000	421,480	-	2,458,885
2037	-	-	338,000	-	-	338,000
<b>TOTAL</b>	<b>\$ 3,538,055</b>	<b>\$ 3,000,009</b>	<b>\$ 7,144,145</b>	<b>\$ 8,101,321</b>	<b>\$ 3,481,230</b>	<b>\$ 25,264,760</b>

Comprised of the following Fund Allocations	GOB Series 2011B	GOB Series 2013A	GOB Series 2013B	GOB Series 2016	GOB Series 2016A	Total Payments	Less Payable in One Year	Long-Term Debt
General Fund	\$ 45,000	\$ -	\$ -	\$ -	\$ 551,650	\$ 596,650	\$ 113,900	\$ 482,750
Water Fund	2,330,000	-	4,985,000	-	1,330,450	8,645,450	474,700	8,170,750
Electric Fund	40,000	1,805,000	-	-	454,300	2,299,300	188,800	2,110,500
Sewer Fund	-	-	-	6,565,000	908,600	7,473,600	192,600	7,281,000
Telecommunication Fund	-	445,000	-	-	-	445,000	145,000	300,000
<b>TOTALS</b>	<b>\$ 2,415,000</b>	<b>\$ 2,250,000</b>	<b>\$ 4,985,000</b>	<b>\$ 6,565,000</b>	<b>\$ 3,245,000</b>	<b>\$ 19,460,000</b>	<b>\$ 1,115,000</b>	<b>\$ 18,345,000</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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**Note 10 – Prior Period Adjustment**

Due to the various account reconciliation issues in the past there were a number of prior period adjustments needed to properly reflect the current balances of these accounts. These changes can be found on the Statement of Activities, Statement of Revenues, Expenditures and Changes in Fund Balances and the Combining Statement of Revenues, Expenses and Changes in Net Position.

**Note 11 - Pension Plan Obligations**

**Non-Uniformed Pension Plan**

*Plan Description*

Borough of Kutztown Non-Uniformed Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance 1-1012. Act 205, the Municipal Pension Plan Funding Standard and Recovery Act, provides the authority for the Borough to establish and amend the plan. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS website or a copy can be obtained by contact the PMRS accounting office.

All full-time non-police (40 hours per week) employees are eligible to participate in the plan. The plan provides vesting, normal and early retirement, disability, and survivor benefits to plan members and their beneficiaries.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting:* The financial statements for the Pension Plan for Non-Uniformed Employees of the Borough of Kutztown are prepared using an accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments:* All investments of the pension trust fund are reported by the custodian at fair value. Investments that do not have an established market value are reported at estimated fair value.

*Plan Membership*

As of January 1, 2015, the date of the most recent actuarial valuation and December 31, 2016, the plan-year end, plan membership consisted of the following:

	1/1/2015
Inactive employees or beneficiaries currently receiving benefits	31
Inactive entitled to but not yet receiving benefits	4
Active employees	45
<b>TOTAL</b>	<b>80</b>



**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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*Contributions and Funding Policy*

Employees who are members in the plan are required to contribute 6.23% of their salaries to the plan. Interest is credited to each member's account each year at 5.5% per year. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

The plan's funding policy provides for periodic employer contributions, determined actuarially, that are sufficient to accumulate assets to pay benefits when due. The Borough is required to contribute each year the Minimum Municipal Obligation (MMO), which is determined the previous year based on the most recent actuarial valuation. The Borough may allocate General Municipal Pension System State Aid toward the Minimum Municipal Obligation; however, the Borough is ultimately responsible for funding the MMO. The Borough contributed the funds necessary to meet the obligations of the non-uniform plan in the amount of \$250,418.

*Net Pension Liability*

The net pension liability was measured as of December 31, 2016, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2015 actuarial valuation to the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

*Actuarial Assumptions*

The total pension liability as of January 1, 2015 was determined using the following economic assumptions, applied to all periods included in the measurement.

Inflation: 3.0%

Salary Increases: Salary Scale

Investment Return: 5.5% (including inflation)

Post-Retirement Cost: 3%

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Dollar Close

Amortization Period: 6 Years

Mortality rates were based on the RP-2000 Mortality tables for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of 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.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
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*The target allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table. This information was provided by the plan's investment consultants, PMRS.*

**Determination of Long-Term Expected Rate of Return**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Nominal Rate of Return</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity-Large Cap	25%	9.9%	6.9%
Domestic Equity-Small Cap	15%	9.8%	6.8%
International Equity-Developed Markets	15%	7.0%	4.0%
International Equity-Emerging Markets	10%	10.6%	7.6%
Real Estate	20%	10.1%	7.1%
Fixed Income	15%	5.4%	2.4%
<b>TOTAL</b>	<b>100.00%</b>	<b>8.9%</b>	<b>5.9%</b>
Long-Term Expected Rate of Return			<b>7.50%</b>

In addition to determining the System's Long-Term Expected Rate of Return, PMRS also develops a Long-Term Expected Rate of Return for individual participating municipalities. The Long-Term Expected Rate of Return for individual participating municipalities is also referred to as the Regular Interest Rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the Board is obligated to apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the Long-Term Expected Rate of Return for individual participating municipalities is equal to the Regular Interest Rate. As of December 31, 2015, this rate is equal to 5.5%.

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.5%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

***Changes in the Net Pension Liability***

The schedule below shows the changes in the Net Pension Liability during the most recent year.

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/2014	\$ 12,133,018	\$ 10,591,378	\$ 1,541,640
Adjustments	(103)		(103)
Changes for the year:			
Service Cost	293,645	-	293,645
Interest	665,766	-	665,766
Changes of Assumptions	(22,941)	-	(22,941)
Differences between expected and actual experience	-	-	-
Employer Contributions	-	239,405	(239,405)
PMRS Assesment Contributions	-	1,720	(1,720)
Employee Contributions	-	136,830	(136,830)
PMRS Investment Income	-	571,531	(571,531)
Market Value Investment Income	-	(487,496)	487,496
Benefit Payments (including contribution refunds)	(652,185)	(652,185)	-
PMRS Administration Expenses	-	(1,720)	1,720
Additional Administration Expenses	-	(23,826)	23,826
Net Changes	<u>284,182</u>	<u>(215,741)</u>	<u>499,923</u>
Balances at 12/31/2015	<u><b>\$ 12,417,200</b></u>	<u><b>\$ 10,375,637</b></u>	<u><b>\$ 2,041,563</b></u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The schedule below shows the impact on the pension liability if it were calculated using a discount rate that is 1% higher and lower than the current discount rate.

	1% Decrease	Current	1% Increase in
	in Discount	Discount Rate	Discount Rate
	Rate	5.50%	6.50%
	4.50%		
Total Pension Liability	\$ 13,896,916	\$ 12,417,200	\$ 11,167,813
Plan Fiduciary Net Position	<u>10,375,637</u>	<u>10,375,637</u>	<u>10,375,637</u>
<b>Net Pension Liability</b>	<u><b>\$ 3,521,279</b></u>	<u><b>\$ 2,041,563</b></u>	<u><b>\$ 792,176</b></u>
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	74.7%	83.6%	92.9%

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

***Components of Pension Expense for Fiscal Year Ended December 31, 2016 (Measurement Year Ending 12/31/15)***

Service Cost	\$	293,645
Interest on the Total Pension Liability		665,766
Differences between Expected and Actual Experience		68,772
Changes in Assumptions		(3,824)
Employee Contributions		(136,830)
Projected Earnings on Pension Plan Investments		(571,531)
Difference between Projected and Actual Earnings on Investments		77,544
Pension Plan Administrative Expense		25,546
Insurance Premiums		-
Other Changes in Net Fiduciary Position		-
<b>Total Pension Expense</b>	<b>\$</b>	<b>419,088</b>

***Pension Expense and Deferred Outflows and Inflows of Resources***

For the year ended December 31, 2016, the actuarially determined pension expense is \$419,088. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2016:

*Deferred Outflows and Inflows of Resources Related to Pension*

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ 275,154	\$ 86
Changes in Actuarial Assumptions	-	19,117
Net Difference in Projected and Actual Earnings on Plan Investments	330,131	-
<b>Totals</b>	<b>\$ 605,285</b>	<b>\$ 19,203</b>

*Actuarially Determined Deferred Outflows and (Inflows) of Resources Related to Pensions for Years Ending December 31:*

2016	\$	142,492
2017		142,492
2018		142,491
2019		162,446
2020		(3,839)
Thereafter		-

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
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*Reconciliation of Pension Expense with Net Pension Liability*

Change in Net Pension Liability	\$ 499,923
Change in Deferred (Outflows) of Resources	(261,342)
Change in Deferred Inflows of Resources	(60,618)
Employer Contributions	241,125
<b>Total Pension Expense</b>	<b>\$ 419,088</b>

**Police Pension Plan**

Plan Description

Borough of Kutztown Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions established by municipal ordinance with the authority for Borough contributions required by Act 205 of 1984 of the Commonwealth.

All full-time police employees are eligible to participate in the plan. The plan provides vesting, normal and early retirement, disability, and survivor benefits to plan members and their beneficiaries. Cost-of-living increases are granted to retirees provided the cost-of-living increase does not exceed the percentage increase in the Consumer Price Index from the year in which the member last worked. The maximum total cost-of-living increase is 30% of the initial pension, and the maximum pension benefit is 75% of the salary used for computing retirement benefits.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting:* The financial statements for the Borough of Kutztown Police Pension Plan are prepared using an accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments:* All Investments of the pension trust fund are reported by the custodian at fair value. Investments that do not have an established market value are reported at estimated fair value.

Plan Membership:

As of January 1, 2015, the date of the most recent actuarial valuation and December 31, 2016, the plan-year end, plan membership consisted of the following:

	<u>12/31/2016</u>
Inactive Members or Beneficiaries Currently Receiving Benefits	7
Inactive Members Entitled to but not yet Receiving Benefits	-
Active Plan Members	<u>12</u>
<b>TOTAL</b>	<b><u>19</u></b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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Contributions and Funding Policy

Officers who are members in the plan are required to contribute 5.0% of their salaries to the plan. Interest is credited to each member's account each year at the rate earned by the Pension fund. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

The plan's funding policy provides for periodic employer contributions, determined actuarially, that are sufficient to accumulate assets to pay benefits when due. The Borough is required to contribute each year the Minimum Municipal Obligation (MMO), which is determined the previous year based on the most recent actuarial valuation. The Borough may allocate General Municipal Pension System State Aid toward the Minimum Municipal Obligation; however, the Borough is ultimately responsible for funding the MMO. The Borough contributed the funds necessary to meet obligations of the non-uniform plan in the amount of \$85,978.

*Net Pension Liability*

The net pension liability was measured as of December 31, 2016, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2015 actuarial valuation. No significant events or changes in assumptions occurred between the valuate date and the fiscal year end.

*Actuarial Assumptions*

The total pension liability as of January 1, 2015 was determined using the following economic assumptions, applied to all periods included in the measurement.

- Inflation: 3.0%
- Salary Increases: 5.0% (Ave. including inflation)
- Investment Return: 7.75% (including inflation)
- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level Dollar Closed
- Amortization Period: Not Applicable

Mortality rates were based on the RP-2000 Mortality tables for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of 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.

*The target allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table. This information was provided by the plan's investment consultants, Conrad Siegel.*

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Domestic Equity	60.00%	5.50% - 7.50%
International Equity	10.00%	4.5% - 6.50%
Fixed Income	25.00%	1.00% - 3.00%
Cash	5.00%	0.00% - 1.00%

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

*Discount Rate:* The discount rate used to measure the total pension liability was 7.75%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

***Changes in the Net Pension Liability***

The schedule below shows the changes in the Net Pension Liability during the most recent year.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 1/1/2016	\$ 4,488,623	\$ 4,883,744	\$ (395,121)
Changes during 2016:			
Service Cost	139,939	-	139,939
Interest	351,351	-	351,351
Changes for Experience	-	-	-
Changes for Assumptions	-	-	-
Employer Contributions	-	85,978	(85,978)
Employee Contributions	-	48,604	(48,604)
Net Investment Income	-	212,912	(212,912)
Benefit Payments (including contribution refunds)	(190,002)	(190,002)	-
Insurance Premiums	-	-	-
Administration Expenses	-	(6,300)	6,300
Other Changes	-	-	-
Net Changes	<u>301,288</u>	<u>151,192</u>	<u>150,096</u>
Balances at 12/31/2016	<u>\$ 4,789,911</u>	<u>\$ 5,034,936</u>	<u>\$ (245,025)</u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The schedule below shows the impact on the pension liability if it were calculated using a discount rate that is 1% higher and lower than the current discount rate.

	1% Decrease in Discount Rate 6.75%	Current Discount Rate 7.75%	1% Increase in Discount Rate 8.75%
	Plan's Net Pension Liability	\$ 313,302	\$ 245,025

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

**Components of Pension Expense for Fiscal Year Ended December 31, 2016**

Service Cost	\$ 139,939
Interest on the Total Pension Liability	351,351
Differences between Expected and Actual Experience	(35,508)
Changes in Assumptions	(6,094)
Employee Contributions	(48,604)
Projected Earnings on Pension Plan Investments	(376,099)
Difference between Projected and Actual Earnings on Investments	108,953
Pension Plan Administrative Expense	6,300
Insurance Premiums	-
Other Changes in Net Fiduciary Position	-
<b>Total Pension Expense</b>	<b>\$ 140,238</b>

**Pension Expense and Deferred Outflows and Inflows of Resources**

For the year ended December 31, 2016, the actuarially determined pension expense is \$140,238. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ (248,556)
Net Difference in Projected and Actual Earnings on Plan Investments	359,497	-
Changes in Actuarial Assumptions	-	(42,654)
<b>Totals</b>	<b>\$ 359,497</b>	<b>\$ (291,210)</b>

**Actuarially Determined Deferred Outflows and (Inflows) of Resources Related to Pensions for Years Ending December 31:**

2017	\$ 67,351
2018	67,351
2019	67,351
2020	(8,965)
2021	(41,602)
Thereafter	(83,204)



**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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*Reconciliation of Pension Expense with Net Pension Liability*

Change in Net Pension Asset, Net of Other Changes	\$ 23,801
Change in Deferred (Outflows) of Resources	(359,497)
Change in Deferred Inflows of Resources	212,723
Employer Contributions	85,978
<b>Total Pension Expense</b>	<b>\$ (36,995)</b>

**Note 12 – Postemployment Benefits Other than Pension:**

***Plan Description***

The Borough offers, through its health care plan, a single-employer defined benefit plan for health care coverage for all retiree only equal to 50% of the cost to the following employees:

1. Any full-time police officer, but not their dependent, who retires after completing 25 years of service and attaining the age of 50. The retiree is eligible for one year of coverage for every five (5) years of service, with coverage ceasing at age 65.
2. Full-time hourly employees. The retiree is eligible for one-year of coverage for every five (5) years of service, with coverage ceasing at age 65.
3. Full-time salaried/confidential employees. The retiree is eligible for one-year of coverage for every three years of service, with coverage ceasing at age 65.

The coverage includes medical, prescription, dental and vision benefits from the date of retirement until the participant is eligible for Medicare. The plan does not issue a separate report.

As of, the date of the most recent valuation (January 1, 2015), participants in the plans were as follows:

Participants	Non-Uniformed Employees	Police
Active Participants	41	11
Retired Participants	2	0

***Summary of Significant Accounting Policies***

Financial information of the municipality's plans is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the individual plan.

***Contributions and Funding Policy***

50% of the cost for participation is funded by the Borough for electing participants. Retiree contributions are assumed to increase at the same rate as the health care cost trend rate. The plan is funded on a pay-as-you go basis; the Borough is not funding the benefits in advance, resulting in an accrued liability.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

***Methods and Assumptions***

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, including assumptions regarding trends in health care premiums, demographic assumptions, mortality, employment or age adjustments. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actual assumptions include a 4.5% rate of return and health care cost trend rates of 6.0% in 2015, 5.5% in 2016 through 2020; decreasing gradually thereafter. 50% of the employees are assumed to elect coverage. The actuarial cost method is entry age normal. An assumption for salary increases (5%) is used only for spreading contributions over future pay under the entry age normal cost method.

***Trend Information***

Projected OPEB costs and obligations are as follows:

(Note: The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits).

	1/1/09	1/1/10	1/1/11	1/1/12	1/1/13	1/1/14	1/1/15	1/1/16
Annual Required Contribution (ARC)	\$ 57,685	\$ 57,685	\$ 57,685	\$ 72,577	\$ 72,577	\$ 56,739	\$ 62,527	\$ 62,527
Contribution Made to Plan	5,180	6,035	12,653	37,021	47,441	46,099	34,584	40,471
	52,505	51,650	45,032	35,556	25,136	10,640	27,943	22,056
Interest on OPEB Obligation	-	1,885	4,546	6,497	7,991	9,005	10,049	11,141
Adjustment to ARC	-	(3,224)	(8,007)	(8,864)	(10,901)	3,853	(13,709)	(15,199)
	52,505	50,311	41,571	33,189	22,226	23,498	24,283	17,998
<b>Net OPEB Obligation Beginning of Year:</b>	-	52,505	102,816	144,387	177,576	199,802	223,300	247,583
<b>Net OPEB Obligation End of Year</b>	<b>\$ 52,505</b>	<b>\$ 102,816</b>	<b>\$ 144,387</b>	<b>\$ 177,576</b>	<b>\$ 199,802</b>	<b>\$ 223,300</b>	<b>\$ 247,583</b>	<b>\$ 265,581</b>

The January 1, 2015 ARC (based on the latest available valuation) information is as follows:

	ARC	Police	Non-Uniformed	Total
Normal cost		\$ 4,846	\$ 29,325	\$ 34,171
Interest		218	1,320	1,538
<b>Total Normal Cost</b>		<b>\$ 5,064</b>	<b>\$ 30,645</b>	<b>\$ 35,709</b>
Amortization of Unfunded Accrued Liability		4,252	22,566	26,818
<b>ARC</b>		<b>\$ 9,316</b>	<b>\$ 53,211</b>	<b>\$ 62,527</b>
Covered Payroll		\$ 90,177	\$ 2,039,824	\$ 2,941,581
ARC as % of Payroll		<b>1.03%</b>	<b>2.61%</b>	<b>2.13%</b>

The schedules of funding progress are included in the required supplementary information section of the accompanying financial statements.

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

**Note 13 – GASB 61 - Condensed Component Unit Data**

**Condensed Statement of Net Position**

	Kutztown Municipal Authority	Kutztown Transportation Authority
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 1,066,606	\$ 68,232
Account Receivable	69,596	-
Due from Other funds	16,031	-
Capital Assets, Net of Accumulated Depreciation	<u>906,362</u>	<u>-</u>
<b>TOTAL ASSETS:</b>	<b>2,058,595</b>	<b>68,232</b>
<b>LIABILITIES:</b>		
Accounts Payable	60,365	-
Customer Deposits	-	-
Due to Other Funds	15,808	-
Due to Borough of Kutztown	<u>150</u>	<u>75</u>
<b>TOTAL LIABILITIES:</b>	<b>76,323</b>	<b>75</b>
<b>NET POSITION:</b>		
Invested in Capital Assets, net of related Debt	906,362	-
Reserved for Operations	318,485	1,025
Unrestricted	<u>757,425</u>	<u>67,132</u>
<b>TOTAL NET POSITION:</b>	<b>\$ 1,982,272</b>	<b>\$ 68,157</b>

**Condensed Statement of Activities**

	Kutztown Municipal Authority	Kutztown Transportation Authority
<b>EXPENSES:</b>		
<i>Major Function:</i>		
Water	\$ 636,535	\$ -
Sewer	199,541	-
Transportation	<u>-</u>	<u>20,769</u>
<b>TOTAL EXPENSES</b>	<b>\$ 836,076</b>	<b>\$ 20,769</b>
<b>PROGRAM REVENUES:</b>		
<i>By Type -</i>		
Water	\$ 740,722	\$ -
Sewer	145,390	-
Miscellaneous	1,500	-
Transportation	-	19,511
Interest Income	<u>898</u>	<u>3</u>
<b>TOTAL REVENUES:</b>	<b>888,510</b>	<b>19,514</b>
Change in Net Position	52,434	(1,255)
Beginning Net Position:	1,867,661	69,412
Prior Period Adjustment	62,177	-
Ending Net Position:	<b>\$ 1,982,272</b>	<b>\$ 68,157</b>

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

**Condensed Statement of Cash Flows**

	Kutztown Municipal Authority	Kutztown Transportation Authority
<b>NET CASH PROVIDED (USED) BY:</b>		
Operating Activities	\$ 67,513	\$ (1,258)
Noncapital Financing Activities	4,475	(1,092)
Investing Activities	2,398	3
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>74,386</b>	<b>(2,347)</b>
Beginning Cash and Cash Equivalents	992,220	70,579
Ending Cash and Cash Equivalents	<b>\$ 1,066,606</b>	<b>\$ 68,232</b>

**Note 14 – Other Commitments**

In June 2012, the Borough of Kutztown adopted an ordinance increasing the indebtedness of the Borough through the issuance of a general obligation note for \$199,742. After issuance, the note was sold to Berks County. The indebtedness was required to fulfill a Berks county wide mandate to the emergency system radios. The Borough does not own any of the radio equipment purchased by the issuance of the debt; it is in the possession of the related fire and emergency service providers. The interest rate on the Note is 9% interest and the repayments are due annually for seven years from June 1, 2013 to 2019 in the amount of \$28,535. The debt is not recorded on the Borough's balance sheet because there is no corresponding asset derived from the mandated transaction. The payments are recorded as part of the expenditures for the related services provided by the fire and emergency service providers. The outstanding balance at year-end is \$85,601.

**Note 15 - Contingencies**

The Borough, along with its component unit – Kutztown Municipality Authority – are jointly involved in several litigation matters involving a neighboring municipality and a developer concerning public sewer capacity and contracts. Various matters are under advisement before the court and still others for which a finding has been declared, are appealable. Therefore, it is not feasible to determine the outcome of the matters in accordance with Statement of Financial Accounting Standard No. 5, and no such adjustments to the accompanying financial statements have been made.

Similarly, the Borough is a defendant in a wrongful termination lawsuit for which it is not feasible to determine the outcome of the matter. This matter is being handled by the Borough's insurance defense council. An estimate of any total liability is not determinable at this time.

**Note 16 – Risk Management**

The Borough is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. For insured programs, there were no significant reductions insurance coverage during the year. Settlement amounts, if any, have not exceeded insurance coverage for the year.

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

**BOROUGH OF KUTZTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2016**

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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.

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.

The Borough is subject to risk of loss from employee risks, property damage, personal injury, auto accidents, etc. The Borough lowers these risks through the purchase of commercial insurance. The Borough workers' compensation policy is a retrospectively rated policy. The final premium is based on actual payroll for the policy year and is determined by the insurance company. Any settlements received by the Borough or its employees did not exceed insurance coverage in the last three years.

**Note 17 – Fund Balances**

Detailed information about aggregated fund balances;

Restricted Fund Balances

The restricted fund balance represents contributions that are externally restricted for specific purposes;

Highway Aid Fund	5,740
Fire Protection Fund	310,421
Recreation Tax Fund	128,532
Road Tax Fund	87,699
Unemployment Compensation Escrow Fund	104,008
<b>TOTAL</b>	<b>\$ 636,400</b>

**Note 18 – Subsequent Events**

On May 30, 2017, a longstanding legal dispute in the matter of the Borough of Kutztown and the Kutztown Municipal Authority vs. Maxatawny Township Municipal Authority and the Township Maxatawny was decided by a non-binding arbitration panel.

In a 2-1 decision, the Arbitrators awarded a total of \$724,303 in financial damages to the Borough of Kutztown and its related Authority along with future payments for the use of a sewer interceptor line by the Township of Maxatawny and its related Authority. In that same decision the Arbitrators awarded the Township of Maxatawny and its related Authority clear title to the sewerage treatment plant that was at the center of the dispute.

As of the date of this report, the 30 day appeal period has expired and upon the filing of the praecipe the Court will enter a judgment in favor of the decision.

The subsequent events have been evaluated through July 13, 2017, which is the date of the financial statements were available to be issued.



Borough Council  
The Borough of Kutztown  
45 Railroad Street  
Kutztown, PA 19530

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business—type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Kutztown, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Borough of Kutztown’s basis financial statements and have issued our report thereon dated July 13, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Borough of Kutztown’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Kutztown’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Kutztown’s internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

## **BOROUGH COUNCIL**

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings to be significant deficiencies.

### ***Compliance and Other Matters***

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

### ***Borough of Kutztown's Response to Findings***

Borough of Kutztown's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Borough of Kutztown's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

Respectfully submitted,

***Hutchinson, Gillahan & Freeh, P.C.***

July 13, 2017

**BOROUGH OF KUTZTOWN**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2016**

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**Material Weakness**

**16.01 – General Ledger Accounts Reconciliations**

<i>Criteria:</i>	General Ledger accounts should be reconciled on a monthly basis.
<i>Condition:</i>	Certain General ledger accounts are not reconciled on a monthly basis.
<i>Context:</i>	It was noted during the course of the audit that the General ledger Accounts were not reconciled on a monthly basis and that certain General Ledger Accounts were not fully reconciled prior to the start of the audit. As a result, many journal entries, some significant in dollar amount, were required to completely reconcile the account balances.
<i>Effect:</i>	Monthly financial reports provided to the Borough Council are not complete and accurate.
<i>Causes:</i>	Lack of personnel in the administration offices to assist the Borough Finance Director with account reconciliations.
<i>Recommendations:</i>	All General Ledger accounts should be reconciled on at least a monthly basis.
<i>View of Responsible Officials:</i>	Due to limited personnel resources available in the administrative offices it is difficult to reconcile all the General Ledger accounts on a monthly basis.
<i>Corrective Action Plan:</i>	We are currently training staff to reconcile General Ledger Account balances that fall under the accounting duties that have been assigned to them.

**Significant Deficiencies**

**16.02 – Recording of Revenues and Expenses**

<i>Criteria:</i>	Revenue and Expenses should be recorded in a timely manner.
<i>Condition:</i>	It was noted during our audit that the revenues and expenditures are recorded primarily by journal entries from the main cash checking account.
<i>Context:</i>	This procedure increases the likelihood that transactional errors in the form of misposted entries could result in significant errors.
<i>Effect:</i>	Monthly financial reporting provided to the Borough Council could contain misleading information.
<i>Cause:</i>	This could possibly be caused by limitations in the accounting software program.
<i>Recommendations:</i>	The Borough should consider other municipal software packages that could integrate all of the Borough's financial aspects into one reporting module.
<i>View of Responsible Officers:</i>	We are aware that the current accounting software system does create serious limitations on the way transactions are processed.
<i>Corrective Action Plan:</i>	We are considering a search for a more efficient accounting software program.



**REQUIRED SUPPLEMENTAL INFORMATION**



**BOROUGH OF KUTZTOWN**  
**Required Supplementary Information**  
**December 31, 2016**

**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Non-Uniform Pension Plan**  
**Last Ten Years\***

	<b>Measurement Year Ending</b>	
	<b>12/31/2015</b>	<b>12/31/2014</b>
<b><u>Total Pension Liability</u></b>		
Service Cost	\$ 293,645	\$ 309,223
Interest Cost	665,766	629,985
Changes of Benefit Terms	-	-
Differences between Expected and Actual Experience*	(103)	412,732
Changes of Assumptions	(22,941)	-
Transfers	-	-
Benefit Payments, including Refunds of Employee Contributions	(652,185)	(718,313)
<b>Net Change in Total Pension Liability</b>	<b>284,182</b>	<b>633,627</b>
<b>Total Pension Liability - Beginning</b>	<b>12,133,018</b>	<b>11,499,391</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 12,417,200</b>	<b>\$ 12,133,018</b>
<b><u>Plan Fiduciary Net Position</u></b>		
Contributions - Employer	239,405	81,890
Contributions - PMRS Assessment	1,720	-
Contributions - Employee	136,830	130,236
PMRS Investment Income	571,531	563,912
Market Value Investment Income	(487,496)	99,776
Transfers	-	-
Benefit Payments, including Refunds of Employee Contributions	(652,185)	(718,313)
PMRS Administrative Expense	(1,720)	(1,640)
Additional Administrative Expense	(23,826)	(21,626)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ (215,741)</b>	<b>\$ 134,235</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>10,591,378</b>	<b>10,457,143</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>\$ 10,375,637</b>	<b>\$ 10,591,378</b>
<b>Net Pension Liability - Ending</b>	<b>\$ 2,041,563</b>	<b>\$ 1,541,640</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>83.56%</b>	<b>87.29%</b>
<b>Covered Employee Payroll</b>	<b>\$ 2,196,450</b>	<b>\$ 2,324,479</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>92.95%</b>	<b>66.32%</b>

\*This schedule is to present the information for ten years. However, until a full ten-year trend is compiled, information for those years, which information is available, is shown.

**BOROUGH OF KUTZTOWN**  
**Required Supplementary Information**  
**December 31, 2016**

**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Police Pension Plan**  
**Last Ten Years\***

	Measurement Year Ending		
	12/31/2016	12/31/2015	12/31/2014
<b><u>Total Pension Liability</u></b>			
Service Cost	\$ 139,939	\$ 133,275	\$ 130,581
Interest Cost	351,351	328,582	332,098
Changes for Experience	-	(319,572)	-
Changes of Assumptions	-	(54,842)	-
Benefit Payments, including Refunds of Member Contributions	(190,002)	(159,444)	(113,222)
<b>Net Change in Total Pension Liability</b>	<b>301,288</b>	<b>(72,001)</b>	<b>349,457</b>
<b>Total Pension Liability - Beginning</b>	<b>4,488,623</b>	<b>4,560,624</b>	<b>4,211,167</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 4,789,911</b>	<b>\$ 4,488,623</b>	<b>\$ 4,560,624</b>
<b><u>Plan Fiduciary Net Position</u></b>			
Contributions - Employer	85,978	179,232	168,437
Contributions - Member	48,604	48,205	48,132
Net Investment Income	212,912	(4,999)	252,593
Benefit Payments, including Refunds of Member Contributions	(190,002)	(159,444)	(113,222)
Administrative Expense	(6,300)	(8,700)	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 151,192</b>	<b>\$ 54,294</b>	<b>\$ 355,940</b>
<b>Plan Net Position - Beginning</b>	<b>4,883,744</b>	<b>4,829,450</b>	<b>4,437,510</b>
<b>Plan Net Position - Ending</b>	<b>\$ 5,034,936</b>	<b>\$ 4,883,744</b>	<b>\$ 4,793,450</b>
<b>Borough's Net Pension Liability (Asset)</b>	<b>\$ (245,025)</b>	<b>\$ (395,121)</b>	<b>\$ (268,826)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>105.12%</b>	<b>108.8%</b>	<b>105.0%</b>
<b>Covered Employee Payroll</b>	<b>\$ 992,971</b>	<b>\$ 983,083</b>	<b>\$ 901,757</b>
<b>Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	<b>8.66%</b>	<b>18.23%</b>	<b>18.68%</b>

\*This schedule is to present the information for ten years. However, until a full ten-year trend is compiled, information for those years, which information is available, is shown.

**BOROUGH OF KUTZTOWN**  
**Required Supplementary Information**  
**December 31, 2016**

**Schedule of Pension Contributions**  
**Non-Uniform Pension Plan**  
**Last Ten Fiscal Years**

Year-Ended December 31,	Actuarially Determined Contribution	Contributions from Employer	Contribution Deficiency/ (Excess)	Covered Employee Payroll	Contributions as a % of Payroll
2005	\$ 38,007	\$ 38,007	\$ -	\$ 1,798,360	2.11%
2006	39,969	39,969	-	1,867,781	2.14%
2007	120,400	120,400	-	1,982,042	6.07%
2008	131,371	131,371	-	2,014,166	6.52%
2009	92,944	92,944	-	2,149,204	4.32%
2010	102,011	102,011	-	2,166,298	4.71%
2011	111,309	111,309	-	2,162,247	5.15%
2012	105,373	105,373	-	2,193,478	4.80%
2013	75,812	75,812	-	2,080,925	3.64%
2014	71,055	81,890	(10,835)	2,324,479	3.52%
2015	241,045	241,125	(80)	2,196,450	10.98%

**Note to Schedule:**

*Valuation Date:* Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the Actuarially Determined Contribution for calendar year 2014 is based upon the January 1, 2013 actuarial valuation.

Methods and assumptions used to determine the contributions rates:

Actuarial Cost Method:	Entry Age Normal
Amortization Period:	Level dollar based upon the amortization period in Act 205
Asset Valuation Method:	Based upon the municipal reserves
Discount Rate:	5.5%
Inflation:	3%
Salary Increases:	Age related scale with merit and inflation component
COLA Increases:	3.0% for those eligible for a COLA
Pre-Retirement Mortality:	Males – RP 2000 with 1 year set back, Females – RP 2000 with 5 year set back
Post-Retirement Mortality:	Sex distinct RP 2000 Combined Healthy Mortality
Changes in Benefit Terms:	None

**BOROUGH OF KUTZTOWN**  
**Required Supplementary Information**  
**December 31, 2016**

**Schedule of Pension Contributions**  
**Police Pension Plan**  
**Last Ten Fiscal Years**

Year-Ended December 31,	Actuarially Determined Contribution	Contributions from Employer	Contribution Deficiency/ (Excess)	Covered Employee Payroll	Contributions as a % of Payroll
2007	\$ 77,496	\$ 77,496	\$ -	\$ 649,250	11.94%
2008	91,327	91,327	-	698,866	13.07%
2009	104,763	104,763	-	737,267	14.21%
2010	94,417	94,417	-	789,116	11.96%
2011	187,279	187,279	-	782,927	23.92%
2012	162,905	162,905	-	799,951	20.36%
2013	172,292	172,292	-	898,354	19.18%
2014	168,437	168,437	-	901,757	18.68%
2015	179,232	179,232	-	983,083	18.23%
2016	85,978	85,978	-	992,971	8.66%

**Note to Schedule:**

*Valuation Date:* Actuarially determined contribution rates are calculated as of January 1, for two to four years prior to the end of the fiscal year in which the contributions were reported.

Methods and assumptions used to determine the contributions rates:

Actuarial Valuation Date:	1/1/2015
Actuarial Cost Method:	Entry Age Normal
Amortization Period:	Level dollar Closed
Remaining Amortization Period:	Not Applicable
Asset Valuation Method:	Market value of assets as determined by the trustee
Inflation:	3%
Investment Rate of Return	7.75%
Retirement Age:	Attainment of age 53 and completion of 25 years of service
Mortality:	RP 2000 Table. This table does not include projected mortality improvements.
Changes in Benefit Terms:	None since 1/1/2015.

**BOROUGH OF KUTZTOWN**  
**Required Supplementary Information**  
**December 31, 2016**

**Other Postemployment Benefits Plan – Non-Uniformed**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2015	\$ -	\$ 367,577	\$ 367,577	0.0%	\$ 2,039,824	18.02%
1/1/2012	-	429,894	429,894	0.0%	2,083,782	20.63%
1/1/2009	-	300,975	300,975	0.0%	1,904,137	15.81%

**Other Postemployment Benefit Plan – Police**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2015	\$ -	\$ 69,259	\$ 69,259	0.0%	\$ 901,757	7.68%
1/1/2012	-	77,254	77,254	0.0%	753,406	10.25%
1/1/2009	-	75,930	75,930	0.0%	609,983	12.45%

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**OTHER SUPPLEMENTAL INFORMATION**

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**BOROUGH OF KUTZTOWN**  
**Combining Balance Sheet**  
**All Special Revenue Funds**  
**For the Year Ended December 31, 2016**

	NON-MAJOR				TOTAL SPECIAL REVENUE FUNDS
	FIRE PROTECTION FUND	RECREATION TAX FUND	ROAD TAX FUND	HIGHWAY AID FUND	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 297,484	\$ 75,923	\$ 6,257	\$ 5,740	\$ 385,404
Real Estate Taxes Receivable	1,447	1,447	\$ 3,618	\$ -	6,512
Due from Other Funds	11,490	51,162	77,824	-	140,476
<b>TOTAL ASSETS</b>	<b>\$ 310,421</b>	<b>\$ 128,532</b>	<b>\$ 87,699</b>	<b>\$ 5,740</b>	<b>\$ 532,392</b>
 <b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	-	-	-	-	-
 <b>FUND BALANCES:</b>					
Nonspendable	11,490	51,162	77,824	-	140,476
Restricted	298,931	77,370	9,875	5,740	391,916
<b>TOTAL FUND BALANCES</b>	<b>310,421</b>	<b>128,532</b>	<b>87,699</b>	<b>5,740</b>	<b>532,392</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 310,421</b>	<b>\$ 128,532</b>	<b>\$ 87,699</b>	<b>\$ 5,740</b>	<b>\$ 532,392</b>



**BOROUGH OF KUTZTOWN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Special Revenue Funds**  
**For the Year Ended December 31, 2016**

	NON-MAJOR				TOTAL SPECIAL REVENUE FUNDS
	FIRE PROTECTION FUND	RECREATION TAX FUND	ROAD TAX FUND	HIGHWAY AID FUND	
<b>REVENUES</b>					
Real Estate Taxes	\$ 79,143	\$ 79,143	\$ 197,857	\$ -	\$ 356,143
Liquid Fuels Tax	-	-	-	139,571	139,571
Investment Earnings	541	176	558	547	1,822
<b>TOTAL REVENUES</b>	<u>79,684</u>	<u>79,319</u>	<u>198,415</u>	<u>140,118</u>	<u>497,536</u>
<b>EXPENDITURES</b>					
General Government	-	-	-	-	-
Public Safety	3,059	-	-	-	3,059
Public Works	-	-	3,433	-	3,433
Culture and Recreation	-	3,695	-	-	3,695
Community Development	-	-	-	-	-
Debt Service	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>3,059</u>	<u>3,695</u>	<u>3,433</u>	<u>-</u>	<u>10,187</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>76,625</u>	<u>75,624</u>	<u>194,982</u>	<u>140,118</u>	<u>487,349</u>
<b>OTHER FINANCING SOURCES (SOURCES)</b>					
Transfers In	-	-	-	-	-
Transfers Out	(13,641)	(46,000)	(429,866)	(300,000)	(789,507)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>(13,641)</u>	<u>(46,000)</u>	<u>(429,866)</u>	<u>(300,000)</u>	<u>(789,507)</u>
<b>NET CHANGES IN FUND BALANCE</b>	62,984	29,624	(234,884)	(159,882)	(302,158)
<b>FUND BALANCES - BEGINNING</b>	247,437	98,908	328,084	165,622	840,051
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	(5,501)	-	(5,501)
<b>FUND BALANCES - ENDING</b>	<u>\$ 310,421</u>	<u>\$ 128,532</u>	<u>\$ 87,699</u>	<u>\$ 5,740</u>	<u>\$ 532,392</u>

**BOROUGH OF KUTZTOWN**  
**Combining Statement of Net Position**  
**All Proprietary Funds**  
**As December 31, 2016**

	MAJOR				NON-MAJOR	TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and Cash Equivalents	\$ 2,373,588	\$ 286,808	\$ 720,497	\$ 95,131	\$ 458,359	\$ 3,934,383
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	674,814	152,131	149,716	103,805	83,258	1,163,724
Prepaid Expenses	18,452	17,094	26,298	14,695	5,925	82,464
Due from Other Funds	896,353	188,365	183,738	36,538	27,108	1,332,102
<b>TOTAL CURRENT ASSETS</b>	<b>3,963,207</b>	<b>644,398</b>	<b>1,080,249</b>	<b>250,169</b>	<b>574,650</b>	<b>6,512,673</b>
<b>NON-CURRENT ASSETS:</b>						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	846,314	5,857,474	5,656,488	78,300	121,599	12,560,175
Machinery and Equipment (Net of Depreciation)	1,361,623	6,650,677	10,949,089	2,951,118	509,080	22,421,587
Construction In Progress	-	-	-	-	-	-
Unamortized Bond Costs	29,854	98,560	159,091	14,704	-	302,209
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,237,791</b>	<b>13,084,118</b>	<b>17,577,960</b>	<b>3,045,544</b>	<b>630,679</b>	<b>36,576,092</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,200,998</b>	<b>\$ 13,728,516</b>	<b>\$ 18,658,209</b>	<b>\$ 3,295,713</b>	<b>\$ 1,205,329</b>	<b>\$ 43,088,765</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 113,769</b>	<b>\$ 91,654</b>	<b>\$ 81,570</b>	<b>\$ 68,591</b>	<b>\$ 62,310</b>	<b>\$ 417,894</b>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts Payable	\$ 468,719	\$ 23,631	\$ 36,879	\$ 42,587	\$ 15,941	\$ 587,757
Accrued Salaries and Benefits	20,189	14,219	14,726	11,455	10,302	70,891
Sales Tax Payable	8,410	-	-	43	-	8,453
Customer Deposits	152,825	-	-	4,500	-	157,325
Interest Payable	16,447	69,845	88,936	1,878	-	177,106
Notes Payable	188,800	474,700	192,600	145,000	-	1,001,100
<b>TOTAL CURRENT LIABILITIES</b>	<b>855,390</b>	<b>582,395</b>	<b>333,141</b>	<b>205,463</b>	<b>26,243</b>	<b>2,002,632</b>
<b>NON-CURRENT LIABILITIES:</b>						
Other Post Employment Benefits	42,577	34,301	30,527	25,669	23,319	156,393
Net Pension Liability	383,732	309,140	275,128	231,349	210,166	1,409,515
Notes Payable	2,110,500	8,170,750	7,281,000	300,000	-	17,862,250
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,536,809</b>	<b>8,514,191</b>	<b>7,586,655</b>	<b>557,018</b>	<b>233,485</b>	<b>19,428,158</b>
<b>TOTAL LIABILITIES</b>	<b>3,392,199</b>	<b>9,096,586</b>	<b>7,919,796</b>	<b>762,481</b>	<b>259,728</b>	<b>21,430,790</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 3,609</b>	<b>\$ 2,908</b>	<b>\$ 2,588</b>	<b>\$ 2,176</b>	<b>\$ 1,977</b>	<b>\$ 13,258</b>
<b>NET POSITION</b>						
Invested in Capital Assets, Net of Related Debt	(91,363)	4,340,108	9,945,269	2,585,840	630,679	17,410,533
Restricted	-	-	-	-	-	-
Unrestricted Net Position	3,010,322	380,568	872,128	13,806	375,254	4,652,078
<b>TOTAL NET POSITION</b>	<b>\$ 2,918,959</b>	<b>\$ 4,720,676</b>	<b>\$ 10,817,397</b>	<b>\$ 2,599,646</b>	<b>\$ 1,005,933</b>	<b>\$ 22,062,611</b>

**BOROUGH OF KUTZTOWN**  
**Combining Statement of Additions, Deductions and Changes in Net Position**  
**All Proprietary Funds**  
**For the Year Ended December 31, 2016**

	MAJOR				NON-MAJOR	TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	
<b><u>OPERATING REVENUES</u></b>						
Charges for Services	\$ 6,714,597	\$ 1,794,780	\$ 1,725,630	\$ 1,049,971	\$ 871,463	\$ 12,156,441
Penalties	42,528	10,040	9,568	70,360	6,210	138,706
Other Fees	-	7,565	18,380	-	-	25,945
Rental Income	175,193	2,876	-	-	-	178,069
Other Income	27,976	17,467	12,047	11,477	37,756	106,723
SCADA and Equipment Lease	-	-	-	121,385	-	121,385
<b>TOTAL OPERATING REVENUES</b>	<u>6,960,294</u>	<u>1,832,728</u>	<u>1,765,625</u>	<u>1,253,193</u>	<u>915,429</u>	<u>12,727,269</u>
<b><u>OPERATING EXPENSES</u></b>						
Costs of Furnishing Utility	3,142,296	663,662	628,767	758,123	337,030	5,529,878
Employee Wages	445,182	358,645	319,187	268,397	243,822	1,635,233
Employee Benefits	205,966	154,977	142,782	107,097	115,988	726,810
Employee Pension	192,821	149,411	134,078	112,901	82,438	671,649
Insurance	85,600	135,399	114,097	29,377	24,967	389,440
Debt Service	100,913	385,745	350,087	14,759	-	851,504
Depreciation	164,478	411,967	528,120	321,597	83,296	1,509,458
<b>TOTAL OPERATING EXPENSES</b>	<u>4,337,256</u>	<u>2,259,806</u>	<u>2,217,118</u>	<u>1,612,251</u>	<u>887,541</u>	<u>11,313,972</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,623,038</u>	<u>(427,078)</u>	<u>(451,493)</u>	<u>(359,058)</u>	<u>27,888</u>	<u>1,413,297</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>						
Interest Earned	7,044	1,614	3,340	195	321	12,514
State Grants	-	-	-	-	249,430	249,430
Premium/(Discount) on Bond Issue	-	25,272	(44,835)	-	-	(19,563)
Transfers from Other Funds	-	537,946	20,918	418,506	218,509	1,195,879
Transfers to Other Funds	(2,187,227)	-	(32,679)	(46)	(323,300)	(2,543,252)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(2,180,183)</u>	<u>564,832</u>	<u>(53,256)</u>	<u>418,655</u>	<u>144,960</u>	<u>(1,104,992)</u>
<b>CHANGES IN NET POSITION</b>	442,855	137,754	(504,749)	59,597	172,848	308,305
<b>NET POSITION, JANUARY 1, 2016</b>	2,336,497	4,386,153	11,604,725	2,388,969	800,052	21,516,396
<b>PRIOR PERIOD ADJUSTMENT</b>	139,607	196,769	(282,579)	151,080	33,033	237,910
<b>NET POSITION, DECEMBER 31, 2016</b>	<u>\$ 2,918,959</u>	<u>\$ 4,720,676</u>	<u>\$ 10,817,397</u>	<u>\$ 2,599,646</u>	<u>\$ 1,005,933</u>	<u>\$ 22,062,611</u>

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**INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES**

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**BOROUGH OF KUTZTOWN**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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**REVENUES**

**TAXES:**

Real Estate Taxes - Current	\$	430,489	
Real Estate Taxes - Prior		11,298	
Real Estate Transfer Tax		103,906	
Earned Income Tax		412,738	
Per Capita		9,207	
Local Services Tax		83,662	
Admissions Tax		35,219	
Mechanical Tax		556	
		556	\$ 1,087,075

**FINES AND FORFEITS:**

Motor Vehicle Violations	17,310	
Fines	40,188	
Criminal Violations	30,638	
Parking Tickets	45,200	
	45,200	133,336

**LICENSES AND PERMITS:**

Franchise Fee Cable	29,479	
Permits/Reports	153,246	
	153,246	182,725

**INTERGOVERNMENTAL:**

Public Utility Realty Tax	-	
In Lieu of Taxes	1,538	
Beverage Licenses	3,819	
Pension State Aid	288,727	
Allotment - Fireman's Relief	30,038	
State Grants	11,238	
	11,238	335,360

**CHARGES FOR SERVICES:**

General Government	11,721	
Public Safety	121,666	
Highways and Streets	28,465	
Culture and Recreation	78,390	
	78,390	240,242

**INVESTMENT AND RENTAL EARNINGS:**

Interest Income	1,883	
Rentals	392,775	
	392,775	394,658

**MISCELLANEOUS:**

Contributions and Donations	12,624	
Reimbursements	276,043	
Refund of Prior Year Expenditure	1	
Other	17,104	
	17,104	305,772

<b>TOTAL REVENUES</b>	<b>\$</b>	<b>2,679,168</b>
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**BOROUGH OF KUTZTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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**EXPENDITURES**

**GENERAL GOVERNMENT**

**LEGAL:**

Solicitor	\$	156,525
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**MAYOR, LEGISLATIVE, BOROUGH MANAGER:**

Employee Wages		76,095
Employee Benefits		54,842
Employee Pension		15,688
Insurance		32,504
Contracted Services		65,605
Advertising, Printing and Postage		9,045
Vehicle Expenses		609
Operating/Office Expenses		10,977
Dues, Meetings and Training		9,415
Small Tools, Equipment and Building		22,515

**FINANCE AND ACCOUNTING:**

Salary		19,150
Employee Benefits		1,465
Audit and Accounting Fees		15,475

**TAX COLLECTION:**

Employee Wages		452
Employee Benefits		32
Contracted Services		2,441

**ENGINEERING:**

Engineering Fees		18,121
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**BUILDINGS AND PLANT:**

Employee Wages		5,335
Employee Benefits		2,616
Employee Pension		825
Operating Supplies		4,284
Heating and Utilities		66,430
Insurance		7,888
Repairs and Maintenance		54,844
Contracted Services		7,979

<b>TOTAL GENERAL GOVERNMENT</b>	<b>\$</b>	<b>661,157</b>
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**BOROUGH OF KUTZTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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**PUBLIC SAFETY**

**POLICE:**

Employee Wages	\$ 1,157,156
Employee Benefits	303,816
Employee Pension	90,846
Operating Supplies	9,108
Vehicle Maintenance and Repair	23,227
Uniforms	14,070
Training, Seminars, Certs	5,684
Ammunition	8,234
Insurance	58,252
Legal	2,420
Dues, Subs and Memberships	2,102
Small Tools and Equipment	9,125
Telephone/Communications	66,091
Postage, Printing and Advertising	6,808
Repairs and Maintenance	8,784
Refuse	382
Contracted Services	33,984
Capital Purchases	82,862

**FIRE AND AMBULANCE:**

Rent of Machine & Equipment	58,450
Insurance	2,713
Telephone/Communications	34,467
Other Services	9

**INSPECTIONS AND ZONING:**

Employee Wages	134,667
Employee Benefits	84,230
Employee Pension	9,944
Vehicle Maintenance and Repair	739
Heating and Utilities	5,258
Operating Supplies	3,435
Telephone/Communications	5,933
Training, Seminars, Certs	979
Legal Services	11,274
Engineering Services	11,241
Small Tools and Equipment	10,738
Postage, Printing and Advertising	3,226
Insurance	1,058
Dues, Subs and Memberships	431
Rent of Building	14,750
Repairs and Maintenance	-
Contracted Services	54,476

**EMERGENCY MANAGEMENT:**

Training, Seminars, Certs	-
Operating Supplies	79
Postage, Printing and Advertising	172
Insurance	28
Contracted Services	3,888

**TOTAL PUBLIC SAFETY** \$ 2,335,136

**BOROUGH OF KUTZTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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**PUBLIC WORKS**

**STREET MAINTENANCE AND LIGHTING:**

Employee Wages	\$	199,091
Employee Benefits		86,223
Employee Pension		22,811
Training, Seminars, Certs		535
Operating Supplies		14,005
Vehicle Maintenance and Repairs		16,449
Uniforms		3,404
Insurance		15,079
Small Tools and Equipment		4,138
Repairs and Maintenance Land & Equip		17,054
Engineering Services		114,953
Telephone/Communications		3,485
Postage, Printing and Advertising		345
Contracted Services		29,165
Rent of Building		34,086
Heating and Utilities		59,656
Capital Improvements		952,954
Snow Removal Materials		16,596

**TOTAL PUBLIC WORKS** \$ 1,590,029

**CULTURE AND RECREATION**

**PARKS AND POOL:**

Employee Wages	317,625
Employee Benefits	72,443
Employee Pension	29,362
Training, Seminars, Certs	950
Operating Supplies	8,496
Small Tools and Equipment	27
Insurance	18,968
Vehicle Maintenance and Repairs	10,035
Telephone/Communications	646
Postage, Printing and Advertising	1,851
Heating and Utilities	48,159
Repairs and Maint Building, Land & Equip	45,104
Contracted Services	22,200
YMCA Programs	6,500
Chemicals	6,631

**TOTAL CULTURE AND RECREATION** \$ 588,997



**BOROUGH OF KUTZTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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**DEBT SERVICE**

Debt Principal	\$	118,350	
Interest Expense		18,370	
Amortization and Other Issuance Costs		11,093	
		<u>11,093</u>	

**TOTAL DEBT SERVICE** \$ 147,813

**UNCLASSIFIED EXPENDITURES**

C, G & S to Non-Profits	28,412	
Foreign Fire Tax Disbursement	30,038	
Other Miscellaneous	1,323	
	<u>1,323</u>	

**TOTAL UNCLASSIFIED EXPENDITURES** \$ 59,773

**TOTAL EXPENDITURES** 5,382,905

**DEFICIENCY OF REVENUES OVER EXPENDITURES** (2,703,737)

**OTHER FINANCING SOURCES AND OTHER FINANCING USES**

Sale of Fixed Assets	-	
Refund of Prior Year Expenditures	-	
Interfund Transfers In	2,906,192	
Interfund Transfers Out	<u>(769,313)</u>	<u>2,136,879</u>

**NET CHANGE IN FUND BALANCES** (566,858)

**FUND BALANCE - JANUARY 1, 2016** (753,085)

**PRIOR PERIOD ADJUSTMENT** (15,681)

**FUND BALANCE - DECEMBER 31, 2016** \$ (1,335,624)

**BOROUGH OF KUTZTOWN**  
**Electric Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 6,476,980	\$ 6,714,597
Penalties	35,000	42,528
Rental Income	189,818	175,193
Other Income	8,300	27,976
<b>TOTAL OPERATING REVENUES</b>	6,710,098	6,960,294
<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	3,741,210	3,142,296
Employee Wages	427,385	445,182
Employee Benefits	176,814	205,966
Employee Pension	41,591	192,821
Insurance	79,802	85,600
Debt Service	260,000	100,913
Depreciation	-	164,478
<b>TOTAL OPERATING EXPENSES</b>	4,726,802	4,337,256
<b>OPERATING INCOME</b>	1,983,296	2,623,038
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	4,000	7,044
Transfers to Other Funds	(1,987,296)	(2,187,227)
<b>TOTAL NON-OPERATING (EXPENSES)</b>	(1,983,296)	(2,180,183)
<b>CHANGES IN NET POSITION</b>	-	442,855
<b>NET POSITION, JANUARY 1, 2016</b>	-	2,336,497
<b>PRIOR PERIOD ADJUSTMENT</b>	-	139,607
<b>NET POSITION, DECEMBER 31, 2016</b>	<b>\$ -</b>	<b>\$ 2,918,959</b>

**BOROUGH OF KUTZTOWN**  
**Water Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 1,893,338	\$ 1,794,780
Penalties	1,000	10,040
Other Fees	12,000	7,565
Rental Income	5,000	2,876
Other Income	2,600	17,467
<b>TOTAL OPERATING REVENUES</b>	<b>1,913,938</b>	<b>1,832,728</b>
<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	591,654	663,662
Employee Wages	337,124	358,645
Employee Benefits	165,091	154,977
Employee Pension	37,702	149,411
Insurance	133,619	135,399
Debt Service	683,000	385,745
Depreciation	-	411,967
<b>TOTAL OPERATING EXPENSES</b>	<b>1,948,190</b>	<b>2,259,806</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(34,252)</b>	<b>(427,078)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	15,000	1,614
Premium on Bond Issue	-	25,272
Transfers from Other Funds	19,236	537,946
Transfers to Other Funds	-	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>34,236</b>	<b>564,832</b>
<b>CHANGES IN NET POSITION</b>	<b>(16)</b>	<b>137,754</b>
<b>NET POSITION, JANUARY 1, 2016</b>	<b>16</b>	<b>4,386,153</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>196,769</b>
<b>NET POSITION, DECEMBER 31, 2016</b>	<b>\$ -</b>	<b>\$ 4,720,676</b>

**BOROUGH OF KUTZTOWN**  
**Sewer Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

	<u>BUDGET</u>	<u>ACTUAL</u>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 1,735,721	\$ 1,725,630
Penalties	1,000	9,568
Other Fees	-	18,380
Other Income	2,900	12,047
<b>TOTAL OPERATING REVENUES</b>	<u>1,739,621</u>	<u>1,765,625</u>
<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	1,180,321	628,767
Employee Wages	309,670	319,187
Employee Benefits	146,914	142,782
Employee Pension	32,037	134,078
Insurance	112,510	114,097
Debt Service	580,000	350,087
Depreciation	-	528,120
<b>TOTAL OPERATING EXPENSES</b>	<u>2,361,452</u>	<u>2,217,118</u>
<b>OPERATING INCOME</b>	<u>(621,831)</u>	<u>(451,493)</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	1,000	3,340
Receipt of Debt Repayment	575,000	-
Discount on Bond Issue	-	(44,835)
Transfers from Other Funds	40,831	20,918
Transfers to Other Funds	-	(32,679)
<b>TOTAL NON-OPERATING (EXPENSES)</b>	<u>616,831</u>	<u>(53,256)</u>
<b>CHANGES IN NET POSITION</b>	(5,000)	(504,749)
<b>NET POSITION, JANUARY 1, 2016</b>	5,000	11,604,725
<b>PRIOR PERIOD ADJUSTMENT</b>	-	(282,579)
<b>NET POSITION, DECEMBER 31, 2016</b>	<u>\$ -</u>	<u>\$ 10,817,397</u>

**BOROUGH OF KUTZTOWN**  
**Telecommunications Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 1,090,000	\$ 1,049,971
Rental Income	70,164	70,360
SCADA and Equipment Lease	134,120	121,385
Other Income	5,000	11,477
<b>TOTAL OPERATING REVENUES</b>	<b>1,299,284</b>	<b>1,253,193</b>
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<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Service	887,505	758,123
Employee Wages	275,508	268,397
Employee Benefits	115,505	107,097
Employee Pension	29,673	112,901
Insurance	22,793	29,377
Debt Service	162,000	14,759
Depreciation	-	321,597
<b>TOTAL OPERATING EXPENSES</b>	<b>1,492,984</b>	<b>1,612,251</b>
<b>OPERATING (LOSS)</b>	<b>(193,700)</b>	<b>(359,058)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	100	195
Transfers to Other Funds	-	(46)
Transfers from Other Funds	-	418,506
<b>TOTAL NON-OPERATING REVENUES</b>	<b>100</b>	<b>418,655</b>
<b>CHANGES IN NET POSITION</b>	<b>(193,600)</b>	<b>59,597</b>
<b>NET POSITION, JANUARY 1, 2016</b>	<b>193,600</b>	<b>2,388,969</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>151,080</b>
<b>NET POSITION, DECEMBER 31, 2016</b>	<b>\$ -</b>	<b>\$ 2,599,646</b>

**BOROUGH OF KUTZTOWN**  
**Refuse and Recycling Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

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	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 877,949	\$ 871,463
Penalties	-	6,210
Other Income	8,000	37,756
<b>TOTAL OPERATING REVENUES</b>	<b>885,949</b>	<b>915,429</b>
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<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Service	823,762	337,030
Employee Wages	309,792	243,822
Employee Benefits	162,690	115,988
Employee Pension	35,330	82,438
Insurance	17,042	24,967
Depreciation	-	83,296
<b>TOTAL OPERATING EXPENSES</b>	<b>1,348,616</b>	<b>887,541</b>
<b>OPERATING (LOSS)</b>	<b>(462,667)</b>	<b>27,888</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	200	321
State Grants	244,800	249,430
Transfers to Other Funds	-	(323,300)
Transfer from Other Funds	217,667	218,509
<b>TOTAL NON-OPERATING REVENUES</b>	<b>462,667</b>	<b>144,960</b>
<b>CHANGES IN NET POSITION</b>	<b>-</b>	<b>172,848</b>
<b>NET POSITION, JANUARY 1, 2016</b>	<b>-</b>	<b>800,052</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>33,033</b>
<b>NET POSITION, DECEMBER 31, 2016</b>	<b>\$ -</b>	<b>\$ 1,005,933</b>

**Borough of Kutztown  
Highway Aid Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended December 31, 2016**

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FUND BALANCE - JANUARY 1, 2016	\$	165,622
<b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
<b>INTERGOVERNMENTAL:</b>		
Liquid Fuels Tax	\$	139,571
Highway/Turnback Income		-
<b>INVESTMENT EARNINGS:</b>		
Interest Earnings		547
		140,118
<b>TOTAL FUNDS AVAILABLE</b>		305,740
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>PUBLIC WORKS:</b>		
Highway Construction	\$	-
<b>OTHER FINANCING USES:</b>		
Transfer To Other Funds		300,000
		300,000
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$</b>	<b>5,740</b>

**Fire Protection Tax Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended December 31, 2016**

FUND BALANCE - JANUARY 1, 2016	\$	247,437
<b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Real Estate Tax	\$	79,143
Interest Earnings		541
<b>OTHER FINANCING SOURCES:</b>		
Transfer from Other Funds		-
		79,684
<b>TOTAL FUNDS AVAILABLE</b>		327,121
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>PUBLIC SAFETY:</b>		
Salaries & Wages	\$	757
Employee Benefits		58
Other Services		2,244
<b>OTHER FINANCING USES:</b>		
Transfer To Other Funds		13,641
		16,700
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$</b>	<b>310,421</b>

**BOROUGH OF KUTZTOWN**  
**Recreation Tax Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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<b>FUND BALANCE - JANUARY 1, 2016</b>	\$	98,908
<b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Real Estate Tax	\$	79,143
Interest Earnings		176
<b>OTHER FINANCING SOURCES:</b>		
Transfer From Other Funds	-	<u>79,319</u>
<b>TOTAL FUNDS AVAILABLE</b>		178,227
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>CULTURE AND RECREATION:</b>		
Salaries & Wages	\$	1,208
Employee Benefits		92
Other Services		2,395
<b>OTHER FINANCING USES:</b>		
Transfer To Other Funds	<u>46,000</u>	<u>49,695</u>
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$</b>	<b><u>128,532</u></b>

**Road Tax Fund**  
**Statement of Additions Received and Deductions Paid**  
**For the Year Ended December 31, 2016**

<b>FUND BALANCE - JANUARY 1, 2016</b>	\$	328,084
<b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Real Estate Tax	\$	197,857
Interest Earnings		558
<b>OTHER FINANCING SOURCES:</b>		
Transfer From Other Funds	-	<u>198,415</u>
<b>TOTAL FUNDS AVAILABLE</b>		526,499
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>PUBLIC WORKS:</b>		
Salaries & Wages	\$	3,026
Employee Benefits		232
Other Services		175
<b>OTHER FINANCING USES:</b>		
Transfer To Other Funds	<u>429,866</u>	<u>433,299</u>
<b>PRIOR PERIOD ADJUSTMENT</b>		<u>(5,501)</u>
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$</b>	<b><u>87,699</u></b>



**BOROUGH OF KUTZTOWN**  
**Unemployment Compensation Escrow Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

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<b>FUND BALANCE - JANUARY 1, 2016</b>	\$	103,715
<b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest Earnings	\$	293
<b>OTHER FINANCING SOURCES:</b>		
Transfer From Other Funds	-	<u>293</u>
<b>TOTAL FUNDS AVAILABLE</b>		104,008
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>GENERAL GOVERNMENT</b>		
Salaries & Wages	\$	-
Employee Benefits		-
Other Services		-
<b>OTHER FINANCING USES:</b>		
Transfer To Other Funds	-	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2016</b>	<b>\$</b>	<b><u>104,008</u></b>

**BOROUGH OF KUTZTOWN**  
**Police Pension Trust Fund**  
**Statement of Additions and Deductions**  
**For the Year Ended December 31, 2016**

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<b>NET POSITION - BEGINNING OF YEAR</b>		\$ 4,885,656
<b>ADDITIONS:</b>		
State Aid	85,978	
Employee Contributions	48,649	
Miscellaneous	256	
<b>INVESTMENT EARNINGS:</b>		
Interest and Dividends	108,042	
Realized Gains (Losses)	(74,496)	
Change in Fair Value of Investments	228,296	
<b>TOTAL ADDITIONS</b>	<u>396,725</u>	
	-----	
<b>DEDUCTIONS:</b>		
Administrative Charges	9,049	
Investment Expenses	47,826	
Employee Benefits	193,096	
<b>TOTAL DEDUCTIONS</b>	<u>249,971</u>	
<b>CHANGE IN NET POSITION</b>		<u>146,754</u>
<b>NET POSITION - END OF YEAR</b>		<u><b>\$ 5,032,410</b></u>