

**REPORT ON
KUTZTOWN MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

KUTZTOWN MUNICIPAL AUTHORITY
Audited Financial Statements
For the Year Ended December 31, 2016

TABLE OF CONTENTS

	<u>Page (s)</u>
Financial Section	
Independent Auditor's Report	1 - 2
Financial Statements	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position.....	4
Statement of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6 - 11
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	12 - 13

FINANCIAL SECTION

July 13, 2017

Members of the Board
Kutztown Municipal Authority
Kutztown, PA 19530

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Kutztown Municipal Authority, a component unit 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 Authority's basic financial statements.

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. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Kutztown Municipal Authority as of December 31, 2016, and the respective changes in financial position and 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*

Management has omitted the management's discussion and analysis and budgetary comparison schedule 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on July 13, 2017, on our consideration of Kutztown Municipal Authority'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 Kutztown Municipal Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 13, 2017

FINANCIAL STATEMENTS

KUTZTOWN MUNICIPAL AUTHORITY
A Component Unit of the Borough of Kutztown
Statement of Net Position
December 31, 2016

<u>ASSETS</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 846,412	\$ 220,194	\$ 1,066,606
Accounts Receivable	54,423	15,173	69,596
Due from Borough of Kutztown	223	-	223
Due from Other Funds	-	15,808	15,808
TOTAL CURRENT ASSETS	901,058	251,175	1,152,233
Infrastructure, net	811,765	94,597	906,362
TOTAL ASSETS	\$ 1,712,823	\$ 345,772	\$ 2,058,595
DEFERRED OUTFLOW OF RESOURCES	\$ -	\$ -	\$ -
LIABILITIES			
Accounts Payable	\$ 47,656	\$ 12,709	\$ 60,365
Due to Other Funds	15,808	-	15,808
Customer Deposits	-	-	-
Due to Borough of Kutztown	150	-	150
TOTAL CURRENT LIABILITIES	63,614	12,709	76,323
TOTAL LIABILITIES	\$ 63,614	\$ 12,709	\$ 76,323
DEFERRED INFLOW OF RESOURCES	\$ -	\$ -	\$ -
NET POSITION			
Restricted	\$ -	\$ 318,485	\$ 318,485
Invested in infrastructure assets, net of related debt	811,765	94,597	906,362
Unrestricted	837,444	(80,019)	757,425
TOTAL NET POSITION	\$ 1,649,209	\$ 333,063	\$ 1,982,272

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

KUTZTOWN MUNICIPAL AUTHORITY
A Component Unit of the Borough of Kutztown
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 740,722	\$ 145,390	\$ 886,112
TOTAL OPERATING REVENUES			
<u>OPERATING EXPENSES</u>			
Water Purchases	599,710	-	599,710
Sewer Processing Charges	-	98,261	98,261
Management & Facility Fees	-	302	302
Depreciation	12,407	1,074	13,481
Other Operating Costs	10,502	6,753	17,255
Other Administrative Costs	13,916	93,151	107,067
	<u>636,535</u>	<u>199,541</u>	<u>836,076</u>
EXCESS (DEFICIT) OPERATING REVENUES OVER OPERATING EXPENSES	<u>104,187</u>	<u>(54,151)</u>	<u>50,036</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Miscellaneous Income	1,500	-	1,500
Transfers	53,732	(53,732)	-
Interest Income	898	-	898
	<u>56,130</u>	<u>(53,732)</u>	<u>2,398</u>
CHANGE IN NET POSITION	160,317	(107,883)	52,434
NET POSITION - JANUARY 1, 2016	1,426,715	440,946	1,867,661
Prior Period Adjustment	62,177	-	62,177
NET POSITION - DECEMBER 31, 2016	<u>\$ 1,649,209</u>	<u>\$ 333,063</u>	<u>\$ 1,982,272</u>

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

KUTZTOWN MUNICIPAL AUTHORITY
Statement of Cash Flows
For the Year Ended December 31, 2016

	Water Fund	Sewer Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from Customers	\$ 726,887	\$ 142,839	\$ 869,726
Payments for Water & Sewer Services	(586,089)	(91,500)	(677,589)
Payments for Other Operating Costs	(24,418)	(100,206)	(124,624)
NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES	116,380	(48,867)	67,513
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Payments from Borough of Kutztown, net	5,548	-	5,548
Customer Deposits	(1,073)	-	(1,073)
Transfers	53,732	(53,732)	-
NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES	58,207	(53,732)	4,475
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Miscellaneous	1,500	-	1,500
Interest Income	898	-	898
Other Changes	6,360	(6,360)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	8,758	(6,360)	2,398
NET INCREASE IN CASH AND CASH EQUIVALENTS	183,345	(108,959)	74,386
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2016	663,067	329,153	992,220
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2016	\$ 846,412	\$ 220,194	\$ 1,066,606
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ 104,187	\$ (54,151)	\$ 50,036
Depreciation Expense	12,407	1,074	13,481
(Increase) Decrease in Accounts Receivable	(13,835)	(2,551)	(16,386)
Increase (Decrease) in Accounts Payable	13,621	6,761	20,382
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 116,380	\$ (48,867)	\$ 67,513

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

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

Note 1 - Description of the Authority and Reporting Entity

The Kutztown Municipal Authority is a municipal authority created under the Pennsylvania Municipal Authorities Act of 1945. The Municipal Authority is governed by a five-member board appointed by the Borough of Kutztown. The Municipal Authority furnishes water and sewer services to residents and businesses located outside the Borough of Kutztown. The Municipal Authority was created on August 22, 1962 and was reactivated in 1999.

Financial Reporting Entity

Generally accepted accounting principles require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the Authority. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete. Based upon the application of these criteria, the Kutztown Borough Municipal Authority has determined it does not have component units. The Authority is a component unit of the Borough of Kutztown and should be included in a combined statement with the Borough. The financial statements represent the activity of the Kutztown Municipal Authority only, and do not reflect any activity of the primary government. Financial statements for the Borough of Kutztown can be obtained at the Borough offices during normal business hours.

Measurement Focus and Basis of Accounting

The Authority's financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which cases, GASB prevails.

The accounting and financial reporting treatment applied to the Authority is determined by using the economic resources measurement focus. Accordingly, all assets and all liabilities associated with operations are included in the statement of net position.

Net position is classified into three categories, as applicable, as follows:

Net Investment in capital assets consists of capital assets, net of accumulated depreciation and related debt.

Restricted net position is amounts that have externally imposed restrictions on how the funds can be spent.

Unrestricted net position includes amounts that do not meet the definitions of "net investment in capital assets" or "restricted" and are available for Authority operations.

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

It is the Authority's policy to first uses restricted net position prior to the use of unrestricted net position when an expenditures is incurred for purposes for which both restricted and unrestricted net positon are available.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items in the statement of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

A. Basis of Presentation and Fund Accounting

The accounts of the Authority are organized in to funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-basing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures.

The funds of the Municipal Authority are grouped in the financial statements as proprietary funds and include a Water Fund, Water Reserve Fund, Sewer Fund, and Sewer Reserve Fund which all started August 10, 1999. The focus of proprietary fund measurement is upon determination of net income, financial position, and changes in cash flow. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector.

The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are descriptions of the proprietary funds of the Authority that are reported as major funds:

Water Fund (Includes Water Reserve Fund)

The Water Fund is used to account for the operations of the water supply works and water distribution systems. The water system is a public utility service, which is maintained on a self-supporting basis.

Sewer Fund (Includes Sewer Reserve Fund)

The Sewer Fund is used to account for the operations of the sewer system. The sewer system is a public utility service, which is maintained on a self-supporting basis.

Reservation of Net Assets

Reservation of the ending net assets indicates the portion of net assets not available for expenditures. This cash is reserved for capital projects as follows:

Water Capital Reserves	\$	-
Sewer Capital Reserves		318,485
TOTAL	\$	318,485

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

Interfund Receivables/Payables

Interfund receivables and payables (recorded as Due To/From Other Funds) arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The Authority maintains cash balances at a local financial institution, which secures deposits that exceed the Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000 with a pledge of collateral in accordance with Pennsylvania Pledge Act 72. At December 31, 2016 the Authority's bank balance was \$748,122.

For the purposes of the statement of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, cash held in the restricted assets accounts, and the PA Local Government Investment Trust.

The types of securities that are permitted investments for Authority funds are established by Pennsylvania statutes and regulations. Investments held by PLGIT may contain a combination of obligations of the U.S. Government or its agencies or instrumentalities backed by the full faith and credit of the U.S. Government; short-term obligations of the U.S. Government or its agencies or instrumentalities with a maturity not greater than 397 days; obligations of the Commonwealth of Pennsylvania or its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or not backed by the full faith and credit of the Commonwealth if otherwise authorized for investment by the statute creating any agency or instrumentality of the Commonwealth issued such obligations; Federal securities subject to repurchase obligations collateralized by U.S. Treasury or Federal Agency or instrumentality obligations held by the Trust's Custodian, collateral marked-to-market daily, collateral held by third party custodian bank; FDIC Insured Certificates of Deposits' CDs collateralized under Pennsylvania Law Act 72 and shares of registered money market funds which invest solely in the securities described above and which are rated in the highest capacity by a nationally recognized rating agency.

Money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940; however the Portfolios are not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the PLGIT and PLGIT/ARM portfolios are categorized as Level 2 input.

Investments of the Authority consist of the following:

	Fair Value/ Carrying Amount
PLGIT - CLASS	318,485
TOTAL	\$ 318,485

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

Custodial Credit Risk

The Authority's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depository government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At December 31, 2016, the Authority's bank balance was exposed to custodial credit risk since the balance in excess of \$250,000 was not covered by FDIC insurance.

At December 31, 2016, the Authority's investments were comprised of obligations of the U.S. Government or its agencies or instrumentalities in the amount of \$318,485. Since the investments are registered in the Authority's name they are not exposed to custodial credit risk. The Authority does not have a written policy for investment securities custodial credit risk but its practice has been to maintain a safekeeping account for the securities at a financial institution.

Concentration of Credit Risk is the risk associated with the amount of investments the Authority has with any one issuer that exceed 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Authority places no limit on the amount it may invest in any one issuer. At December 31, 2016, the Authority was not exposed to a concentration of credit risk.

Credit Risk disclosure required by GASB 40 as to the credit rating of all debt security investments except for obligations of the U.S. Government or Obligations explicitly guaranteed by the U.S. Government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding credit risk except to the extent outlined under the Authority's investment policy. The Authority's PLGIT accounts received an AAA rating by Standard and Poor's.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a written policy that limits investment maturities as a means of managing its exposures to fair value losses arising from interest rate fluctuations, but the Authority does from time to time evaluate its investment portfolio to determine if based on the interest rate environment, other investment vehicles would provide higher yields that lower the cost and risk. Investments are held in PLGIT accounts where cost approximates fair value.

For the year ended December 31, 2016, investment income consisted of:

Interest Earnings	\$	898
TOTAL	\$	898

Note 3 – Accounts Receivable

All accounts receivable are shown net of an allowance for uncollectible accounts, as applicable. Accounts receivable are evaluated for collectability and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Note 4 – Fixed Assets and Depreciation

Fixed assets are recorded at estimated cost net of estimated depreciation as follows:

	December 31, 2016
Estimated Cost of Facilities and Infrastructure	\$ 1,348,048
Estimated Accumulated Depreciation	441,686
TOTAL	\$ 906,362

Fixed assets are depreciated over their estimated useful lives of 100 years. Depreciation, computed on the straight-line method, for the year ended December 31, 2016 was \$13,481.

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Capital Asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/16	Additions	Deletions	Balance 12/31/16
<i>Water Fund:</i>				
Infrastructure	\$ 1,200,468	\$ -	\$ -	\$ 1,200,468
<i>Sewer Fund:</i>				
Infrastructure	147,580	-	-	147,580
Total Being Depreciated	\$ 1,348,048	\$ -	\$ -	\$ 1,348,048
Less: Accumulated Depreciation				
Water Fund	376,698	12,407	-	389,105
Sewer Fund	51,507	1,074	-	52,581
Total Accumulated Depreciation	428,205	13,481	-	441,686
Total Capital Assets, Net:				
Water Fund	824,172	(12,407)	-	811,765
Sewer Fund	95,671	(1,074)	-	94,597
TOTAL	\$ 919,843	\$ (13,481)	\$ -	\$ 906,362

Note 5 – Related Party Transactions

The Municipal Authority pays a fee to the Borough of Kutztown for water service and sewer rentals. For 2016, \$599,710 and \$498,261 respectively were paid for water purchased and sewer rentals. Additionally, \$17,557 was paid for management services. At December 31, 2016, Borough of Kutztown owes the Kutztown Municipal Authority a net amount of \$73 for water and sewer fees as reflected in the liabilities as \$150 and in assets of \$223.

KUTZTOWN MUNICIPAL AUTHORITY
Notes To Financial Statements
Year Ended December 31, 2016

Note 6 – Commitments and Contingencies

Risk Financing

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority is covered under the Borough of Kutztown's insurance policy and therefore, no premium for insurance expense is reflected on the financial statements.

Litigation

The Authority, along with its primary government – The Borough of Kutztown – 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.

Grant Programs

The Authority participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Authority is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

Concentrations

Kutztown University accounted for 68% of the Authority's water sales in 2016.

Note 7 – Prior Period Adjustment

Certain adjustments were required to correct prior year balances and align them with beginning of year starting account balances.

Note 8 – 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 award 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 a praecipe the Court will enter a judgment in favor of the decision.

Management has evaluated subsequent events through July 13, 2017, which is the date the financial statements were available to be issued.

Members of the Board
Kutztown Municipal Authority
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 the financial statements of Kutztown Municipal Authority, a component unit of the Borough of Kutztown, as of and for the year ended December 31, 2016, which collectively comprise the Kutztown Municipal Authority's basic financial statements and have issued our report thereon dated July 13, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kutztown Municipal Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kutztown Municipal Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kutztown Municipal Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kutztown Municipal Authority'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 of other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Authority Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 13, 2017