

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

KUTZTOWN TRANSPORTATION 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 – Cash Basis	3
Statement of Revenues, Expenditures and Changes in Net Position – Cash Basis	4
NOTES TO FINANCIAL STATEMENTS	5 - 8
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	9 - 10

FINANCIAL SECTION



July 13, 2017

Members of the Board
Kutztown Transportation Authority
Kutztown, PA 19530

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net position – cash basis of the business-type activities of the Kutztown Transportation Authority, a component unit of the Borough of Kutztown, as of December 31, 2016 and the related statements of revenues, expenditures and changes in net position – cash basis for the year then ended, 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 the cash basis of accounting; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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 – cash basis of the business-type activities of the Kutztown Transportation Authority, as of December 31, 2016, and the respective change in financial position – cash basis, thereof for the year then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Other 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 Transportation 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 Transportation Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 13, 2017

FINANCIAL STATEMENTS

KUTZTOWN TRANSPORTATION AUTHORITY
Statement of Net Position
As of December 31, 2016

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 68,232
TOTAL CURRENT ASSETS	<u>\$ 68,232</u>
<u>LIABILITIES</u>	
Due to Borough of Kutztown	\$ 75
TOTAL CURRENT LIABILITIES	<u>75</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ -
Restricted	1,025
Unrestricted Net Assets	<u>67,132</u>
TOTAL NET POSITION	<u>\$ 68,232</u>

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

KUTZTOWN TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended December 31, 2016

OPERATING REVENUES

Charges for Services	\$ 19,295	
Miscellaneous Income	216	
TOTAL OPERATING REVENUES		\$ 19,511

OPERATING EXPENSES

Repairs & Operating Costs	19,488	
Legal & Auditing Services	629	
Advertising and Other Services	363	
Other Charges	289	
TOTAL OPERATING EXPENDITURES		20,769

OPERATING INCOME		\$ (1,258)
-------------------------	--	-------------------

NON-OPERATING REVENUES (EXPENSES)

Interest Income		3

CHANGE IN NET POSITION		(1,255)
-------------------------------	--	----------------

NET POSITION - Beginning		69,412

NET POSITION - Ending		\$ 68,157
------------------------------	--	------------------

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

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

Note 1 - Description of the Authority and Reporting Entity

The Kutztown Transportation Authority is a transportation authority created under the Pennsylvania Transportation Authorities Act of 1945. The Transportation Authority is governed by a five-member board appointed by the Borough of Kutztown. The Transportation Authority maintains the railroad system that provides services to residents and businesses located in the Borough of Kutztown and surrounding areas. The Transportation Authority receives payments from the Borough and users of the railroad system. The Transportation Authority was created on August 8, 2000.

Kutztown Transportation Authority prepares its financial statements on the cash basis of accounting. Under this basis, the revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Fixed Assets and infrastructure are not capitalized and no provision has been made for depreciation in the component unit. Accordingly, the financial statements are not intended to present results of operations in conformity with generally accepted accounting principles.

The preparation of financial statements on the cash basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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 criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies entities, which should be presented with the Authority. The Authority is a component unit of the Borough of Kutztown and should be included in a combined statement with the Borough. Financial statements for the Borough of Kutztown can be obtained at the Borough offices during normal business hours.

The Authority distinguishes operating revenues and expenses from nonoperating items. 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 nonoperating revenues and expenses.

Note 2 – Fund Financial Statements

A. Basis of Presentation

The accounts of the Authority are organized on the basis of funds or groups of accounts, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures or expenses, as appropriate. The various funds are grouped into two generic fund types as follows:

Proprietary Activities

The focus of proprietary account measurement is upon determination of net income, financial position, and changes in cash flows. The accounting principles, generally accepted in the United States of America, applicable are those similar to businesses in the private sector. The following is a description of the Authority's proprietary accounts:

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

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing transportation services to the general public on a continuing basis that are financed through charges.

Note 3 – 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 \$67,207 and fully covered under FDIC.

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 issuing 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 Pledge 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.

	Fair Value/ Carrying Amount
PLGIT - CLASS	1,025
TOTAL	\$ 1,025

The Authority implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 “Deposit and Investment Risks Disclosures” (GASB 40) and, accordingly, the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

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 the December 31, 2016, the Authority’s bank balance of \$67,207 was not exposed to custodial credit risk.

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

As of 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 \$1,025. Since the investments are registered in the Authority's name they are not exposed to custodial credit risk. The Authority does not have 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

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

Credit Risk disclosure required by GASB 40 as to the credit rating of all debt security investments expect 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 expect to the extent outlined under the Authority's investment policy. The Authority's PLGIT accounts received an AAA rating by Standard and Poor's. The Authority's money market fund is not rated.

Interest Rate Risk

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.

Note 4 – Net Position

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

Net investment in capital assets consist of capital assets, net of accumulated depreciation and related debt. As explained in Note 1, the Authority prepares its financial statements on a cash basis of accounting, therefore this amount is reported at zero on the accompanying financial statements.

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.

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

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

Note 5 – Related Party Transactions and Concentrations

The Transportation Authority may receive funds from the Borough of Kutztown; however in 2016 no funds were received from the Borough of Kutztown.

One customer accounted for 95% of the Authority's total revenue for 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 Kutztown Borough insurance policy and therefore, no premium for insurance expense is reflected on the financial statements.

Litigation

In the normal course of operations, the Authority may be involved in various civil disputes. Management is of the opinion that any outcome resulting from these actions would not have a material effect on the Authority's financial position. The Authority is exposed to various risks of loss related 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.

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.

Note 7 – Subsequent Events

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



Members of the Board
Kutztown Transportation 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 Transportation Authority, a component unit of the Borough of Kutztown, as of and for the year ended December 31, 2016, which collectively comprise the Kutztown Transportation 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 Transportation 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 Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kutztown Transportation 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 Transportation 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