

**REPORT ON
BOROUGH OF KUTZTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019**

BOROUGH OF KUTZTOWN
Financial Statements
For the Year Ended December 31, 2019

TABLE OF CONTENTS

	<u>PAGE (S)</u>
Financial Section	
Independent Auditor's Report	1 - 3
Basic Financial Statements	
Governmental-wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet - All Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	9
Statement of Net Position – All Proprietary Funds	10
Statement of Revenues, Expenditures and Changes in Net Position – All Proprietary Funds	11
Statement of Cash Flows - Proprietary Funds	12 - 13
Statement of Net Position - Fiduciary Funds	14
Statement of Additions, Deductions and Changes in Net Position - Fiduciary Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	16
Notes to Financial Statements	17 – 55
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	56- 57
Schedule of Findings and Questioned Costs	58 - 59

BOROUGH OF KUTZTOWN
Financial Statements
For the Year Ended December 31, 2019

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE (S)</u>
Required Supplemental Information	
Schedule of Changes in the Net Pension Liability and Related Ratios - Non-Uniform Pension Plan	60
Schedule of Changes in the Net Pension Liability and Related Ratios - Police Pension Plan.....	61
Schedule of Pension Contributions – Non-Uniformed Pension Plan	62
Schedule of Pension Contributions – Police Pension Plan	63
Schedule of Changes in the Net OPEB Liabilities and Related Ratios.....	64
Other Supplemental Information	
Combining Balance Sheet – Special Revenue Funds.....	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds	66
Combining Statement of Net Position - All Proprietary Funds	67
Combining Statement of Additions, Deductions and Changes in Net Position – All Proprietary Trust Funds.....	68
Individual Fund Statements and Schedules	
Borough of Kutztown	
General Fund.....	69 - 73
Electric Fund	74
Water Fund	75
Sewer Fund.....	76
Telecommunications Fund.....	77
Refuse and Recycling Fund.....	78
Highway Aid Fund	79
Fire Protection Tax Fund.....	79
Recreation Tax Fund.....	80
Road Tax Fund.....	80
Police Pension Trust Fund.....	81

FINANCIAL SECTION



August 19, 2020

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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the United States is currently operating under a state of National Emergency due to the Coronavirus Pandemic. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios, the Schedule of Net Pension Contributions, and the Schedule of Net OPEB Liabilities and Related Ratios 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 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 August 19, 2020, 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.

August 19, 2020

BASIC FINANCIAL STATEMENTS

BOROUGH OF KUTZTOWN
Statement of Net Position
As of December 31, 2019

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNITS
	ACTIVITIES	ACTIVITIES		AUTHORITIES
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 2,597,553	\$ 4,980,932	\$ 7,578,485	\$ 1,465,296
Taxes Receivable	12,347	-	12,347	-
Accounts Receivable (Net)	13,693	1,204,377	1,218,070	78,130
Prepaid Expenses	34,823	66,325	101,148	-
Net Pension Asset	-	-	-	-
Internal Balances	-	348,165	- (1)	41,284
Due from Component Units/Primary Government	-	-	-	69,030
TOTAL CURRENT ASSETS	2,658,416	6,599,799	8,910,050	1,653,740
NON-CURRENT ASSETS:				
Land	1,334,868	1,292,121	2,626,989	-
Buildings (Net of Depreciation)	702,294	12,885,975	13,588,269	-
Infrastructure (Net of Depreciation)	6,737,305	-	6,737,305	1,062,003
Machinery and Equipment/Infrastructure (Net of Depreciation)	296,957	19,144,482	19,441,439	-
Unamortized Bond Costs	-	465,331	465,331	-
TOTAL NON-CURRENT ASSETS	9,071,424	33,787,909	42,859,333	1,062,003
TOTAL ASSETS	\$ 11,729,840	\$ 40,387,708	\$ 51,769,383	\$ 2,715,743
DEFERRED OUTFLOWS OF RESOURCES	\$ 1,310,120	\$ 682,316	\$ 1,992,436	\$ -
LIABILITIES				
CURRENT LIABILITIES:				
Internal Balances	\$ 308,165	\$ 40,000	\$ - (1)	\$ 41,284
Due to Component Unit/Primary Government	69,030	-	69,030	-
Accounts Payable	198,492	737,155	935,647	73,803
Accrued Salaries and Benefits	93,280	94,484	187,764	-
Bonds Payable	80,000	1,095,000	1,175,000	-
Interest Payable	1,526	73,040	74,566	-
Customer Deposits	-	152,325	152,325	8,000
TOTAL CURRENT LIABILITIES	750,493	2,192,004	2,594,332	123,087
NON-CURRENT LIABILITIES:				
Net Other Post Employment Liability	372,844	380,288	753,132	-
Net Pension Liability	701,040	1,566,003	2,267,043	-
Bonds Payable	125,000	15,400,000	15,525,000	-
TOTAL NON-CURRENT LIABILITIES	1,198,884	17,346,291	18,545,175	-
TOTAL LIABILITIES	\$ 1,949,377	\$ 19,538,295	\$ 21,139,507	\$ 123,087
DEFERRED INFLOWS OF RESOURCES	\$ 652,630	\$ 17,470	\$ 670,100	\$ -
NET POSITION				
Invested in Capital Assets, Net of Related Debt	8,866,424	16,827,578	25,694,002	1,062,003
Restricted	784,470	-	784,470	333,640
Unrestricted	787,059	4,686,681	5,473,740	1,197,013
TOTAL NET POSITION	\$ 10,437,953	\$ 21,514,259	\$ 31,952,212	\$ 2,592,656

(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, 2019

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
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 615,140	\$ 439,211	\$ 344,223	\$ -	\$ 168,294	\$ -	\$ 168,294	
Public Safety	2,777,322	230,146	42,654	-	(2,504,522)	-	(2,504,522)	
Public Works	589,180	-	-	156,197	(432,983)	-	(432,983)	
Culture and Recreation	604,511	77,341	-	-	(527,170)	-	(527,170)	
Community Development	-	-	-	-	-	-	-	
Non-Departmental	39,318	-	-	-	(39,318)	-	(39,318)	
Debt Service Payments	5,900	-	-	-	(5,900)	-	(5,900)	
Depreciation	432,722	-	-	-	(432,722)	-	(432,722)	
TOTAL GOVERNMENTAL ACTIVITIES	5,064,093	746,698	386,877	156,197	(3,774,321)	-	(3,774,321)	
BUSINESS-TYPE ACTIVITIES:								
Electric	4,289,074	6,535,866	-	-	-	2,246,792	2,246,792	
Water	2,446,773	2,113,628	-	-	-	(333,145)	(333,145)	
Sewer	1,992,837	2,160,285	-	-	-	167,448	167,448	
Telecom	1,140,415	678,446	-	-	-	(461,969)	(461,969)	
Refuse	905,597	920,300	-	5,349	-	20,052	20,052	
TOTAL PRIMARY GOVERNMENT	\$ 15,838,789	\$ 13,155,223	\$ 386,877	\$ 161,546	\$ (3,774,321)	\$ 1,639,178	\$ (2,135,143)	
COMPONENT UNITS								
Municipal Authorities	\$ 956,298	\$ 1,138,946	\$ -	\$ -				\$ 182,648
GENERAL REVENUES:								
Property Taxes, Levied for General Purposes					\$ 804,237	\$ -	\$ 804,237	\$ -
Other Taxes Levied for General Purposes					643,219	-	643,219	-
Grants, Subsidies, & Contributions Not Restricted					14,500	-	14,500	-
Investment and Rental Earnings					448,421	336,386	784,807	6,742
Miscellaneous Income					144,379	-	144,379	6,001
Transfers					1,788,359	(1,788,359)	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					3,843,115	(1,451,973)	2,391,142	12,743
CHANGE IN NET POSITION					68,794	187,205	255,999	195,391
NET POSITION - BEGINNING					10,369,159	21,327,054	31,696,213	2,397,265
NET POSITION - ENDING					\$ 10,437,953	\$ 21,514,259	\$ 31,952,212	\$ 2,592,656

The accompanying notes are an integral part of these financial statements.

BOROUGH OF KUTZTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2019

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,927,183	\$ 670,370	\$ 2,597,553
Taxes Receivable	7,076	5,271	12,347
Prepaid Expenses	34,823	-	34,823
Accounts Receivable	13,693	-	13,693
TOTAL ASSETS	<u>\$ 1,982,775</u>	<u>\$ 675,641</u>	<u>\$ 2,658,416</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES:</u>			
Due to Other Funds	\$ 308,165	\$ -	\$ 308,165
Due to Component Units	69,030	-	69,030
Accounts Payable	198,492	-	198,492
Accrued Salaries and Benefits	93,280	-	93,280
Interest Payable	1,526	-	1,526
TOTAL LIABILITIES	<u>670,493</u> -----	<u>-</u> -----	<u>670,493</u> -----
<u>FUND BALANCES:</u>			
- Nonspendable	-	-	-
- Restricted	108,829	675,641	784,470
- Committed	-	-	-
- Assigned	-	-	-
- Unassigned	1,203,453	-	1,203,453
TOTAL FUND BALANCES	<u>1,312,282</u>	<u>675,641</u>	<u>1,987,923</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,982,775</u>	<u>\$ 675,641</u>	<u>\$ 2,658,416</u>

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, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 1,987,923**

**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 \$18,438,765 and the accumulated depreciation is \$9,367,341. 9,071,424

Pension assets and related deferred outflows are not financial resources and , therefore, are not reported as assets in the governmental funds. 1,310,120

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	\$	(205,000)	
Net Pension Liability		(1,353,670)	
Other Retirement Benefits		<u>(372,844)</u>	<u>(1,931,514)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 10,437,953**

The accompanying notes are an integral part of these financial statements.

BOROUGH OF KUTZTOWN
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
For the Year Ended December 31, 2019

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUES</u>			
Taxes	\$ 1,102,387	\$ 343,756	\$ 1,446,143
Licenses and Permits	191,223	-	191,223
Fines and Forfeits	103,033	-	103,033
Intergovernmental	388,190	156,197	544,387
Charges for Services	207,546	-	207,546
Miscellaneous	51,640	-	51,640
Reimbursements	244,896	-	244,896
Investment and Rental Earnings	440,402	8,019	448,421
TOTAL REVENUES	<u>2,729,317</u>	<u>507,972</u>	<u>3,237,289</u>
	-----	-----	-----
<u>EXPENDITURES</u>			
CURRENT:			
General Government	676,928	-	676,928
Public Safety	2,847,820	783	2,848,603
Public Works	859,861	3,133	862,994
Culture and Recreation	666,907	1,319	668,226
Community Development	-	-	-
Non-Departmental	39,318	-	39,318
DEBT SERVICE:			
Principal	125,000	-	125,000
Interest	5,900	-	5,900
TOTAL EXPENDITURES	<u>5,221,734</u>	<u>5,235</u>	<u>5,226,969</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,492,417)</u>	<u>502,737</u>	<u>(1,989,680)</u>
OTHER FINANCING SOURCES			
Refund of Prior Year Expenditures	107,239	-	107,239
Sale of Fixed Assets	-	-	-
Interfund Transfers In	1,989,658	-	1,989,658
Interfund Transfers Out	(155)	(201,144)	(201,299)
TOTAL OTHER FINANCING SOURCES	<u>2,096,742</u>	<u>(201,144)</u>	<u>1,895,598</u>
NET CHANGE IN FUND BALANCES	(395,675)	301,593	(94,082)
FUND BALANCES - BEGINNING	<u>1,707,957</u>	<u>374,048</u>	<u>2,082,005</u>
FUND BALANCES - ENDING	<u>\$ 1,312,282</u>	<u>\$ 675,641</u>	<u>\$ 1,987,923</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, 2019

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (94,082)**

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	\$ (432,722)	
Asset Deletions	-	
Capital Outlays	<u>542,319</u>	109,597

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.

(71,721)

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.

125,000

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 68,794**

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, 2019

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,211,941	\$ 756,663	\$ 1,197,133	\$ -	\$ 815,195	\$ 4,980,932
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	703,386	175,231	182,182	52,715	90,863	1,204,377
Prepaid Expenses	15,874	13,579	22,759	11,691	2,422	66,325
Due from Other Funds	99,112	127,025	41,581	33,971	46,476	348,165
TOTAL CURRENT ASSETS	3,030,313	1,072,498	1,443,655	98,377	954,956	6,599,799
NON-CURRENT ASSETS:						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	1,219,127	5,655,233	5,856,994	54,900	99,721	12,885,975
Machinery and Equipment/Infrastructure (Net of Depreciation)	1,073,308	5,878,979	9,819,125	2,015,003	358,067	19,144,482
Unamortized Bond Costs	23,883	314,175	127,273	-	-	465,331
TOTAL NON-CURRENT ASSETS	2,316,318	12,325,794	16,616,684	2,071,325	457,788	33,787,909
TOTAL ASSETS	\$ 5,346,631	\$ 13,398,292	\$ 18,060,339	\$ 2,169,702	\$ 1,412,744	\$ 40,387,708
DEFERRED OUTFLOWS OF RESOURCES						
	\$ 198,726	\$ 154,351	\$ 131,112	\$ 111,984	\$ 86,143	\$ 682,316
LIABILITIES						
CURRENT LIABILITIES:						
Accounts Payable	\$ 568,035	\$ 52,346	\$ 71,812	\$ 30,356	\$ 14,606	\$ 737,155
Accrued Salaries and Benefits	28,043	21,277	18,130	15,186	11,848	94,484
Customer Deposits	152,325	-	-	-	-	152,325
Due to Other Funds	40,000	-	-	-	-	40,000
Interest Payable	9,565	8,998	54,477	-	-	73,040
Bonds Payable	155,000	500,000	440,000	-	-	1,095,000
TOTAL CURRENT LIABILITIES	952,968	582,621	584,419	45,542	26,454	2,192,004
NON-CURRENT LIABILITIES:						
Other Post Employment Benefits	110,760	86,027	73,075	62,414	48,012	380,288
Net Pension Liability	456,102	354,255	300,918	257,019	197,709	1,566,003
Bonds Payable	1,470,000	8,030,000	5,900,000	-	-	15,400,000
TOTAL NON-CURRENT LIABILITIES	2,036,862	8,470,282	6,273,993	319,433	245,721	17,346,291
TOTAL LIABILITIES	2,989,830	9,052,903	6,858,412	364,975	272,175	19,538,295
DEFERRED INFLOWS OF RESOURCES						
	\$ 5,088	\$ 3,952	\$ 3,357	\$ 2,867	\$ 2,206	\$ 17,470
NET POSITION						
Invested in Capital Assets, Net of Related Debt	667,435	3,481,619	10,149,411	2,071,325	457,788	16,827,578
Restricted	-	-	-	-	-	-
Unrestricted Net Position	1,883,004	1,014,169	1,180,271	(157,481)	766,718	4,686,681
TOTAL NET POSITION	\$ 2,550,439	\$ 4,495,788	\$ 11,329,682	\$ 1,913,844	\$ 1,224,506	\$ 21,514,259

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, 2019

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 6,476,416	\$ 1,916,914	\$ 2,122,241	\$ 545,341	\$ 868,791	\$ 11,929,703
Penalties	44,188	10,430	10,489	-	7,091	72,198
Other Fees	-	173,925	20,840	-	-	194,765
Rental Income	95,098	-	-	82,256	-	177,354
Other Income	15,262	12,359	6,715	50,849	44,418	129,603
SCADA and Equipment Lease	-	-	-	127,860	-	127,860
TOTAL OPERATING REVENUES	6,630,964	2,113,628	2,160,285	806,306	920,300	12,631,483
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	3,116,985	754,125	595,811	279,705	384,572	5,131,198
Employee Wages	535,433	415,872	353,258	301,722	232,096	1,838,381
Employee Benefits	271,551	236,429	192,515	148,967	124,958	974,420
Employee Pension	68,272	60,165	57,396	46,451	58,198	290,482
Insurance	81,782	155,436	117,206	27,394	18,897	400,715
Debt Service	76,855	422,357	162,427	16,337	-	677,976
Depreciation	138,196	402,389	514,224	319,839	86,876	1,461,524
TOTAL OPERATING EXPENSES	4,289,074	2,446,773	1,992,837	1,140,415	905,597	10,774,696
OPERATING INCOME (LOSS)	2,341,890	(333,145)	167,448	(334,109)	14,703	1,856,787
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	59,423	12,615	23,571	2,768	15,051	113,428
State Grants	-	-	-	-	5,349	5,349
Transfers from Other Funds	14,368	447,399	8,661	3,251	968	474,647
Transfers to Other Funds	(2,246,711)	(4,159)	(2,289)	(1,381)	(8,466)	(2,263,006)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,172,920)	455,855	29,943	4,638	12,902	(1,669,582)
CHANGES IN NET POSITION	168,970	122,710	197,391	(329,471)	27,605	187,205
NET POSITION, JANUARY 1, 2019	2,381,469	4,373,078	11,132,291	2,243,315	1,196,901	21,327,054
NET POSITION, DECEMBER 31, 2019	\$ 2,550,439	\$ 4,495,788	\$ 11,329,682	\$ 1,913,844	\$ 1,224,506	\$ 21,514,259

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF KUTZTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
As of December 31, 2019**

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Cash Received from Users	\$ 6,496,622	\$ 1,931,014	\$ 2,140,430	\$ 630,793	\$ 872,979	\$ 12,071,838
Cash Received from Other Operating Revenue	110,360	186,284	27,555	178,709	44,418	547,326
Cash Payments to Employees for Services	(829,054)	(684,162)	(573,758)	(468,585)	(391,700)	(9,656,510)
Cash Payments to Suppliers for Goods and Services	(3,021,264)	(720,548)	(557,926)	(257,777)	(381,750)	(4,939,265)
Cash Payments to Other Operating Expenses	(161,050)	(655,714)	(283,546)	(45,163)	(18,382)	(1,163,855)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,595,614	56,874	752,755	37,977	125,565	3,568,785
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>						
(Increase) Decrease in Due from Other Funds	(68,676)	(126,294)	(41,061)	(25,902)	(45,530)	(307,463)
Increase (Decrease) in Due to Other Funds	40,000	-	-	-	-	40,000
State Grants	-	-	-	-	5,349	5,349
Operating Transfers In	14,368	447,399	8,661	3,251	968	474,647
Operating Transfers Out	(2,246,711)	(4,159)	(2,289)	(1,381)	(8,466)	(2,263,006)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(2,261,019)	316,946	(34,689)	(24,032)	(47,679)	(2,050,473)
<u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u>						
Loan Principal Payments/Proceeds	(195,000)	(30,000)	(435,000)	(150,000)	-	(810,000)
Purchase of Fixed Assets	(455,920)	(234,502)	(280,089)	-	-	(970,511)
Sale of Fixed Assets	-	-	-	-	-	-
Interest Paid on Long-Term Borrowings	-	-	-	-	-	-
(Increase) Decrease in Unamortized Bond Costs	1,990	(6,729)	10,606	12,743	-	18,610
NET CASH (USED) FOR CAPITAL FINANCING ACTIVITIES	(648,930)	(271,231)	(704,483)	(137,257)	-	(1,761,901)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Earnings on Investments	59,423	12,615	23,571	2,768	15,051	113,428
NET CASH PROVIDED BY INVESTING ACTIVITIES	59,423	12,615	23,571	2,768	15,051	113,428
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(254,912)	115,204	37,154	(120,544)	92,937	(130,161)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,466,853	641,459	1,159,979	120,544	722,258	5,111,093
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,211,941	\$ 756,663	\$ 1,197,133	\$ -	\$ 815,195	\$ 4,980,932

The accompanying notes are an integral part of these financial statements.

BOROUGH OF KUTZTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2019

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

	MAJOR				NON-MAJOR	
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
OPERATING INCOME (LOSS)	\$ 2,341,890	\$ (333,145)	\$ 167,448	\$ (334,109)	\$ 14,703	\$ 1,856,787
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Depreciation	138,196	402,389	514,224	319,839	86,876	1,461,524
CHANGE IN ASSETS AND LIABILITIES:						
(Increase) Decrease in Accounts Receivable	(17,449)	3,670	7,700	3,196	(2,903)	(5,786)
(Increase) Decrease in Prepaid Expenses	(1,468)	(745)	(674)	(609)	515	(2,981)
(Increase) Decrease in Deferred Outflows	(30,521)	(34,882)	(19,287)	(18,261)	(15,074)	(118,025)
Increase (Decrease) in Accounts Payable	95,721	33,577	37,885	21,928	2,822	191,933
Increase (Decrease) in Accrued Salaries and Benefits	3,375	3,191	2,824	2,335	1,368	13,093
Increase (Decrease) in Sales Tax Payable	(8,958)	-	-	-	-	(8,958)
Increase (Decrease) in Interest Payable	(945)	(77,176)	(3,239)	(823)	-	(82,183)
Increase (Decrease) in GASB 68 Pension and OPEB Liability	260,356	204,078	170,224	148,649	116,216	899,523
Increase (Decrease) in Deferred Inflows	(187,008)	(144,083)	(124,350)	(104,168)	(78,958)	(638,567)
Increase (Decrease) in Customer Deposits	2,425	-	-	-	-	2,425
TOTAL ADJUSTMENTS	<u>253,724</u>	<u>390,019</u>	<u>585,307</u>	<u>372,086</u>	<u>110,862</u>	<u>1,711,998</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 2,595,614</u>	<u>\$ 56,874</u>	<u>\$ 752,755</u>	<u>\$ 37,977</u>	<u>\$ 125,565</u>	<u>\$ 3,568,785</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, 2019

	POLICE PENSION TRUST FUNDS
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 300,070
Investments, at Fair Value	6,148,012
TOTAL ASSETS	<u>\$ 6,448,082</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ -</u>
<u>LIABILITIES</u>	
Pension Taxes Payable	\$ -
TOTAL LIABILITIES	<u>\$ -</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>\$ -</u>
 <u>NET POSITION</u>	
Restricted for Employee Benefits	<u>6,448,082</u>
TOTAL NET POSITION	<u>\$ 6,448,082</u>

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, 2019

	POLICE PENSION TRUST FUNDS
ADDITIONS:	
State Aid	\$ 139,393
Employee Contributions	55,152
Miscellaneous	-
INVESTMENT EARNINGS:	
Interest and Dividends	127,718
Realized Gains (Losses)	156,468
Change in Fair Value of Investments	861,002
TOTAL ADDITIONS	<u>1,339,733</u>
 DEDUCTIONS:	
Administrative Charges	8,009
Investment Expenses	61,454
Employee Benefits	209,505
TOTAL DEDUCTIONS	<u>278,968</u>
 CHANGES IN NET POSITION	 1,060,765
 NET POSITION - BEGINNING OF YEAR	 <u>5,387,317</u>
 NET POSITION - END OF YEAR	 <u><u>\$ 6,448,082</u></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, 2019

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
<u>RESOURCES (INFLOW):</u>						
Taxes	\$ 993,900	\$ 993,900	\$ 1,102,387	\$ 108,487	\$ -	\$ 1,102,387
Licenses and Permits	199,900	199,900	191,223	(8,677)	-	191,223
Fines and Forfeits	131,000	131,000	103,033	(27,967)	-	103,033
Intergovernmental	317,150	317,150	388,190	71,040	-	388,190
Charges for Services	215,900	215,900	207,546	(8,354)	-	207,546
Miscellaneous	30,500	30,500	51,640	21,140	-	51,640
Reimbursements	234,301	234,301	244,896	10,595	-	244,896
Investment and Rental Earnings	392,600	392,600	440,402	47,802	-	440,402
Refund of Prior Year Expenditures	100	100	107,239	107,139	-	107,239
Transfers from Other Funds	2,467,894	2,467,894	1,989,658	(478,236)	-	1,989,658
TOTAL RESOURCES	4,983,245	4,983,245	4,826,214	(157,031)	-	4,826,214
<u>CHARGES TO APPROPRIATIONS (OUTFLOWS):</u>						
General Government						
Legal	9,000	9,000	14,564	(5,564)	-	14,564
Mayor, Legislative, Borough Manager	457,088	457,088	529,999	(72,911)	-	529,999
Finance and Accounting	7,000	7,000	13,294	(6,294)	-	13,294
Tax Collection	5,319	5,319	2,041	3,278	-	2,041
Engineering	533	533	1,384	(851)	-	1,384
Buildings and Plant	111,668	111,668	115,646	(3,978)	-	115,646
Public Safety						
Police	2,057,214	2,057,214	2,351,891	(294,677)	-	2,351,891
Fire and Ambulance	95,194	95,194	135,537	(40,343)	-	135,537
Inspections & Permits	383,283	383,283	360,037	23,246	-	360,037
Emergency Management	3,400	3,400	355	3,045	-	355
Public Works						
Street Maintenance and Lighting	961,324	961,324	859,861	101,463	-	859,861
Culture and Recreation						
Parks and Pool	762,153	762,153	666,907	95,246	-	666,907
Non-Departmental						
Debt Service	86,969	86,969	130,900	(43,931)	-	130,900
Miscellaneous	43,100	43,100	39,318	3,782	-	39,318
Transfer to Other Funds	-	-	155	(155)	-	155
TOTAL CHARGES TO APPROPRIATIONS	4,983,245	4,983,245	5,221,889	(238,644)	-	5,221,889
Excess (Deficiency) of Inflows Over Outflows	-	-	(395,675)	(395,675)	-	(395,675)
FUND BALANCE - JANUARY 1, 2019	-	-	1,707,957	1,707,957	-	1,707,957
FUND BALANCE - DECEMBER 31, 2019	\$ -	\$ -	\$ 1,312,282	\$ 1,312,282	\$ -	\$ 1,312,282

The accompanying notes are an integral part of these financial statements.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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 ensure 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, 2019

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 five 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, 2019

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 services 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 custodial 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.

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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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 the Special Revenue Funds. All annual appropriations lapse at fiscal year-end. Budgets for the Enterprise Funds 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, and telecommunication funds. Expenditures exceeded revenues in the general and telecom 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, except 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.

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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

G. Implementation of New Accounting Standards

The Governmental Accounting Standards Board (GASB) issued the following standards that were scheduled to take effect for calendar year 2019:

GASB Statement No. 83, *Certain Asset Retirement Obligations*

GASB Statement No. 84, *Fiduciary Activities*

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*

On May 8, 2020 GASB postponed by one year the effective dates of certain provisions in these pronouncements (GASB Statement 95).

The Borough has already adopted and implemented all applicable above referenced Statements.

H. Future Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following standards with future effective dates:

GASB Statement 87, *Leases* – Effective date postponed 18 months by GASB 95– Now effective for calendar year 2022

GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* – Effective date postponed one year by GASB 95 – Now effective for calendar year 2021

GASB Statement 91, *Conduit Debt Obligations* – Effective date postponed one year by GASB 95 – Now effective for calendar year 2022

GASB Statement 92, *Omnibus 2020* – Effective date postponed one year by GASB 95 – Now effective for calendar year 2022

GASB Statement 93, *Replacement of Interbank Offered Rates* – Effective date postponed one year by GASB 95 – Now various portions effective in calendar year 2021 and 2022

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - Effective for calendar year 2023

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* - Effective for calendar year 2023

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* - Effective for calendar year 2022 (with certain pension reporting requirements effective immediately)

The Borough will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

I. 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 2019 is \$195,282,400 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 lien 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:

- **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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

- **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.

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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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.

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 position – 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 \$9,071,424. The difference of (\$1,353,670) 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:

- 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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

- 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
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 804,237	\$ -	\$ -	\$ -	\$ 804,237
Other Taxes Levied for General Purposes	643,219	-	-	-	643,219
Grants, Subsidies & Contributions	14,500	-	-	-	14,500
Investment and Rental Earnings	448,421	-	-	-	448,421
Miscellaneous	37,140	-	-	-	37,140
Charges for Services	746,698	-	-	-	746,698
Refund of Prior Years Expense	107,239	-	-	-	107,239
Transfers In	1,989,658	-	-	-	1,989,658
STATE SOURCES:					
Operating Grants and Contributions	543,074	-	-	-	543,074
FEDERAL SOURCES:					
Operating Grants and Contributions	-	-	-	-	-
TOTAL REVENUES	5,334,186	-	-	-	5,334,186
EXPENDITURES/EXPENSES AND OTHER USES					
General Government	676,928	987	(62,775)	-	615,140
Public Safety	2,848,603	66,674	(137,955)	-	2,777,322
Public Works	862,994	1,658	(275,472)	-	589,180
Culture and Recreation	668,226	2,402	(66,117)	-	604,511
Community Development	-	-	-	-	-
Non-Departmental	39,318	-	-	-	39,318
Debt Service Payments	130,900	-	-	(125,000)	5,900
Depreciation	-	-	432,722	-	432,722
Transfers Out	201,299	-	-	-	201,299
TOTAL EXPENDITURES/EXPENSES	5,428,268	71,721	(109,597)	(125,000)	5,265,392
NET CHANGE FOR THE YEAR	\$ (94,082)	\$ (71,721)	\$ 109,597	\$ 125,000	\$ 68,794

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, 2019, \$2,632,790 of the Borough's bank balance of \$3,132,790 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	2,632,790
TOTAL	\$ 2,632,790

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 2,632,790
Plus: Insured Amount	500,000
Deposit in Transit	-
Combined Cash Overdraft in Accounts Payable	25,406
Less: Outstanding Checks	<u>(22,507)</u>
Carrying Amount - Bank Balances	3,135,689
Plus: Petty Cash	900
Deposits in Investment Pool Considered Cash Equivalents	4,731,717
Deposit in Sinking Fund Considered Cash Equivalent	<u>10,249</u>
TOTAL CASH PER FINANCIAL STATEMENTS	<u>\$ 7,878,555</u>

Restricted Cash

The cash balance includes \$300,070 held for pension benefits.

Note 5 - Investments

The permitted investments for Pennsylvania Boroughs are defined in the Borough Code, as amended by Act 10 of 2016, 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.
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

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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. 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 use 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 7.75% 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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

As of December 31, 2019, the Borough had the following investments:

Investments	Maturities	Fair Value
PA Local Government Investment Trust/PA Invest Pool		\$ 4,731,717
Municipal Bond	2 years 5mos - 31 years	1,013,220
U.S. Government Agency Bonds	5 mos - 4 years 10 mos	195,374
Corporate Bonds		-
Common Stocks		2,685,725
ETF's and CEF's		2,253,693
TOTAL		\$ 10,879,729

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, 2019, the Borough's significant investments were rated as:

Investments	Standard & Poor's
PLGIT / PA Invest Pool	AAA
Common Stocks	Not Available
ETFs & CEFs	Not Available
Municipal Bonds	A to AA+
Corporate Bonds	Not Available
U.S. Government Agency Bonds	AA+

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 43.68%, 36.66%, 16.48%, 0%, and 3.18%, respectively represent the Police Pension Trust Funds investments.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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	\$ 10,879,729
Less: Deposits in Investment Pool Considered Cash Equivalents	(4,731,717)
Total Investments Per Financial Statements	\$ 6,148,012

Restricted Investments

The investments include \$6,148,012 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
Receivables									
Taxes	\$ 7,076	\$ 5,271	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,347
Accounts	13,693	-	703,386	175,231	182,182	52,715	90,863	78,130	1,296,200
Intergovernmental	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Gross Receivables	20,769	5,271	703,386	175,231	182,182	52,715	90,863	78,130	1,308,547
Less: Allowance for Uncollectibles	-	-	-	-	-	-	-	-	-
Net Receivables	\$ 20,769	\$ 5,271	\$ 703,386	\$ 175,231	\$ 182,182	\$ 52,715	\$ 90,863	\$ 78,130	\$ 1,308,547

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2019, were:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,334,868	\$ -	\$ -	\$ 1,334,868
Construction in Progress	-	-	-	-
Total Capital Assets not being depreciated	1,334,868	-	-	1,334,868
Capital Assets being Depreciated:				
Buildings	2,144,572	-	-	2,144,572
Machinery, Equipment and Vehicles	1,699,881	183,141	-	1,883,022
Infrastructure	12,717,125	359,179	-	13,076,304
Total Capital Assets being depreciated	16,561,578	542,320	-	17,103,898
Less: Accumulated Depreciation for:				
Buildings	(1,376,282)	(65,996)	-	(1,442,278)
Machinery, Equipment and Vehicles	(1,521,635)	(64,430)	-	(1,586,065)
Infrastructure	(6,036,703)	(302,296)	-	(6,338,999)
Total Accumulated Depreciation	(8,934,620)	(432,722)	-	(9,367,342)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	7,626,958	109,598	-	7,736,556
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 8,961,826	\$ 109,598	\$ -	\$ 9,071,424
Business-Type Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,292,121	\$ -	\$ -	\$ 1,292,121
Construction in Progress	-	-	-	-
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	46,367,417	46,340	-	46,413,757
Infrastructure	12,871,548	924,174	-	13,795,722
Total Capital Assets being depreciated	61,006,236	970,514	-	61,976,750
Less: Accumulated Depreciation for:				
Buildings	(762,615)	(40,892)	-	(803,507)
Machinery, Equipment and Vehicles	(26,122,534)	(1,146,741)	-	(27,269,275)
Infrastructure	(1,599,620)	(273,891)	-	(1,873,511)
Total Accumulated Depreciation	(28,484,769)	(1,461,524)	-	(29,946,293)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	32,521,467	(491,010)	-	32,030,457
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	\$ 33,813,588	\$ (491,010)	\$ -	\$ 33,322,578

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated **\$ 432,722**

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

Depreciation – Unallocated **\$1,461,524**

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Note 8 – Interfund Transactions

The Borough had the following interfund payables and receivables as of December 31, 2019:

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 308,165
Fire Protection Tax Fund (Special Revenue)	-	-
Recreation Tax Fund (Special Revenue)	-	-
Road Tax Fund (Special Revenue)	-	-
Refuse Fund (Enterprise)	46,476	-
Water Fund (Enterprise)	127,025	-
Electric Fund (Enterprise)	99,112	40,000
Sewer Fund (Enterprise)	41,581	-
Telecom Fund (Enterprise)	33,971	-
TOTAL	\$ 348,165	\$ 348,165

The Borough also made the following interfund transfers during the year ended December 31, 2019.

	TRANSFERS IN	TRANSFERS OUT
General Fund	\$ 1,989,658	\$ 155
Fire Protection Tax Fund (Special Revenue)	-	4,250
Recreation Tax Fund (Special Revenue)	-	75,000
Road Tax Fund (Special Revenue)	-	-
Highway Aid Fund (Special Revenue)	-	121,894
Refuse Fund (Enterprise)	968	8,466
Water Fund (Enterprise)	447,399	4,159
Electric Fund (Enterprise)	14,368	2,246,711
Sewer Fund (Enterprise)	8,661	2,289
Telecom Fund (Enterprise)	3,251	1,381
TOTAL	\$ 2,464,305	\$ 2,464,305

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2019, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Yr
Governmental Activities:					
Bonds Payable					
Capital Projects	\$ 330,000	\$ -	\$ 125,000	\$ 205,000	\$ 80,000
Total Governmental Activities					
LONG-TERM LIABILITIES	\$ 330,000	\$ -	\$ 125,000	\$ 205,000	\$ 80,000
Business-Type Activities					
Bonds Payable					
Capital Projects	\$ 17,305,000	\$ 7,515,000	\$ 8,325,000	\$ 16,495,000	\$ 1,095,000
Total Business-Type Activities					
LONG-TERM LIABILITIES	\$ 17,305,000	\$ 7,515,000	\$ 8,325,000	\$ 16,495,000	\$ 1,095,000

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:

Governmental Activities	Paid
General Obligation Bonds	\$ 5,900
Total Interest Paid By Governmental Activities	\$ 5,900
Business-Type Activities	Paid
General Obligation Bonds	\$ 384,615
Total Interest Paid by Business-Type Activities	\$ 384,615

The total interest cost incurred and charged to expense in 2019 was \$390,515.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Long-Term Debt

At December 31, 2019, 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.	\$ 1,515,000
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.	5,975,000
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.	1,695,000
General Obligation Bonds, Series of 2017; S&T Bank, Initial issue \$2,435,000 at an interest rate of 2.82% per annum until August, 2032. Refinanced into GOB Series 2019.	-
General Obligation Bonds, Series of 2017A; S&T Bank, Initial Issue \$5,215,000 at an interest rate of 2.82% per annum until August, 2037. Refinanced into GOB Series 2019.	-
General Obligation Bonds, Series of 2019; Wilmington Trust, Initial Issue \$7,515,000 at an interest rate of 1.40% to 2.70% per annum until August, 2037.	7,515,000
TOTAL	\$ 16,700,000

At December 31, 2019, the division of debt between the governmental and business-type activities was as follows:

Governmental	\$ 205,000
Business-Type	16,495,000
TOTAL	\$ 16,700,000

The following summarizes debt activity for the Borough for 2019:

	Outstanding January 1, 2019	Issued	Retired	Outstanding December 31, 2019	Due in One Year
General Obligation Bonds 2013A	\$ 1,765,000	\$ -	\$ 250,000	\$ 1,515,000	\$ 100,000
General Obligation Bonds 2016	6,320,000	-	345,000	5,975,000	350,000
General Obligation Bonds 2016A	2,110,000	-	415,000	1,695,000	425,000
General Obligation Bonds 2017	2,435,000	-	2,435,000	-	-
General Obligation Bonds 2017A	5,005,000	-	5,005,000	-	-
General Obligation Bonds 2019	-	7,515,000	-	7,515,000	300,000
TOTAL	\$ 17,635,000	\$ 7,515,000	\$ 8,450,000	\$ 16,700,000	\$ 1,175,000

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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

Fiscal Year	Principal	Interest
2020	\$ 1,175,000	\$ 346,676
2021	1,135,000	381,817
2022	1,075,000	358,532
2023	1,075,000	334,997
2024	1,095,000	310,692
2025-2029	5,935,000	1,151,733
2030-2034	4,225,000	385,840
2035-2037	985,000	53,166
TOTAL	\$ 16,700,000	\$ 3,323,453

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, 2019

Combined Long-Term Debt

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

Principal Requirements Fiscal Year	GOB Series 2013A	GOB Series 2016	GOB Series 2016A	GOB Series 2019	Total Payments
2020	\$ 100,000	\$ 350,000	\$ 425,000	\$ 300,000	\$ 1,175,000
2021	105,000	360,000	430,000	240,000	1,135,000
2022	110,000	370,000	330,000	265,000	1,075,000
2023	110,000	375,000	300,000	290,000	1,075,000
2024	115,000	475,000	210,000	295,000	1,095,000
2025-2029	660,000	2,535,000	-	2,740,000	5,935,000
2030-2034	315,000	1,510,000	-	2,400,000	4,225,000
2035-2037	-	-	-	985,000	985,000
TOTAL	\$ 1,515,000	\$ 5,975,000	\$ 1,695,000	\$ 7,515,000	\$ 16,700,000
Less: Payable Within One Year	100,000	350,000	425,000	300,000	1,175,000
Long-Term Debt Outstanding	\$ 1,415,000	\$ 5,625,000	\$ 1,270,000	\$ 7,215,000	\$ 15,525,000

Principal and Interest Requirements Fiscal Year	GOB Series 2013A	GOB Series 2016	GOB Series 2016A	GOB Series 2019	Total Payments
2020	\$ 168,437	\$ 489,059	\$ 458,900	\$ 405,280	\$ 1,521,676
2021	170,192	492,059	455,400	399,166	1,516,817
2022	171,307	494,859	346,800	420,566	1,433,532
2023	167,072	492,459	310,200	440,266	1,409,997
2024	167,067	584,959	214,200	439,466	1,405,692
2025-2029	836,493	2,925,669	-	3,324,571	7,086,733
2030-2034	338,570	1,588,714	-	2,683,556	4,610,840
2035-2037	-	-	-	1,038,166	1,038,166
TOTAL	\$ 2,019,138	\$ 7,067,778	\$ 1,785,500	\$ 9,151,037	\$ 20,023,453

Comprised of the following Fund Allocations	GOB Series 2013A	GOB Series 2016	GOB Series 2016A	GOB Series 2019	Total Payments	Less Payable in One Year	Long-Term Debt
General Fund	\$ -	\$ -	\$ 205,000	\$ -	\$ 205,000	\$ 80,000	\$ 125,000
Water Fund	-	-	1,015,000	7,515,000	8,530,000	500,000	8,030,000
Electric Fund	1,515,000	-	110,000	-	1,625,000	155,000	1,470,000
Sewer Fund	-	5,975,000	365,000	-	6,340,000	440,000	5,900,000
Telecommunication Fund	-	-	-	-	-	-	-
TOTALS	\$ 1,515,000	\$ 5,975,000	\$ 1,695,000	\$ 7,515,000	\$ 16,700,000	\$ 1,175,000	\$ 15,525,000

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Note 10 - Pension Plan Obligations

Non-Uniformed Pension Plan

Plan Description

The 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 defined benefit 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

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.

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, 2019, the date of the most recent actuarial valuation and December 31, 2019, the plan-year end, plan membership consisted of the following:

	1/1/2019
Inactive employees or beneficiaries currently receiving benefits	31
Inactive entitled to but not yet receiving benefits	5
Active employees	45
TOTAL	81

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

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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 \$373,686.

Net Pension Liability

The net pension liability for December 31, 2019 was measured as of December 31, 2018, and the total pension liability was measured as of December 31, 2018 based on the actuarial valuation as of January 1, 2019 and then projected to this date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

Actuarial Assumptions

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 contributions were reported. Therefore, the Actuarially Determined contribution for calendar year 2018 is based upon the January 1, 2015 actuarial valuation.

A summary of the key assumptions and methods used to determine the 2018 contribution rates:

Actuarial Cost Method:	Entry Age
Amortization Period:	Level dollar based upon the amortization periods in Act 205
Asset valuation method:	Based upon the municipal reserves
Discount Rate:	5.50%
Inflation:	3.0%
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

Long-Term Expected Rate of Return:

The PMRS System's long-term expected rate of return on pension plan investments were determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the Long-Term Expected Rate of Return, by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of December 31, 2018 are summarized in the table below labeled "System Nominal and Real Rates of Return by Asset Class." There are three steps to the method:

1. Expected future real rates of return are based primarily on the 20 year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific assets classes if, in the Board's opinion, any such asset classes are expected in the future to significantly vary from its 20 year returns.
2. The nominal rates of return by asset class are adjusted by the System's investment expenses and an expected future annual inflation rate of 2.2% to produce the long-term expected real rates of return.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

3. The long-term expected real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations.

System Nominal and Real Rates of Return by Asset Class

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic Equity-Large Cap	25%	8.6%	5.6%
Domestic Equity-Small Cap	15%	10.2%	7.2%
International Equity-Developed Markets	15%	7.6%	4.6%
International Equity-Emerging Markets	10%	11.7%	8.7%
Real Estate	20%	9.2%	6.2%
Fixed Income	15%	5.1%	2.1%
TOTAL	100.00%	8.6%	5.6%

Confidence Levels for System Nominal and Real Rates of Return

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95%	2.8%	0.1%
90%	3.9%	1.2%
85%	4.6%	1.9%
80%	5.1%	2.4%
75%	5.5%	2.8%
70%	5.9%	3.2%

Based on the three-part analysis, the Board established the System's Long-Term Expected Rate of Return at 7.0%.

In addition to determining the System's Long-Term Expected Rate of Return, PMRS Board, under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), is obligated to develop and apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. The rationale for the difference between the System's Long-Term Expected Rate of Return and the individual participating municipalities' Regular Interest Rate is described in the following section "Discount Rate." As of December 31, 2018, this rate is equal to 5.25%.

The Board has determined the minimum acceptable confidence level for achieving the Regular Interest Rate to be 70%. The table above labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels based on the most recent asset allocation study conducted by the Boards' investment consultant, Dahab Associates.

Discount Rate:

While it is often common practice to establish an actuarial Discount Rate that is equal to the Long-Term Expected Rate of Return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

1. Retiree Plan liability as a percentage of total Plan liability,
2. Active Plan participant liability as a percentage of total Plan liability,
3. Smoothed Pension Benefit Guarantee Corporate (PBGC) annuity rates as a proxy for annuity purchase rates,
4. PMRS System Long-Term Expected Rate of Return, and
5. PMRS administrative expenses

The formula using these factors is as follows:

Regular Interest Rate = (Retiree Liability Percentage x Smoothed PBGC Annuity Rates) + (Active Employee Liability Percentage x System Long-Term Expected Rate of Return) – (Administrative Expenses as a percentage of assets).

The Board may then adjust the Regular Interest Rate derived from the formula due to a variety of qualitative factors such as the desire to minimize Regular Interest Rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The Discount Rate adopted by the Board and used to measure the individual participating municipalities' total pension liability was 5.25% as of December 31, 2018.

The Regular Interest Rate / Discount Rate will likely be less than the System Long-Term Expected Rate of Return. Should the System experience a prolonged period of investment returns in excess of the Regular Interest Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies in the form of Excess Interest as provided for in the law.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the Discount Rate was required ("depletion testing"), used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System Long-Term Expected Rate of Return will be used in the depletion testing of projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

The table below shows the changes in the Total Pension Liability, the Plan Fiduciary Net Position (i.e., fair value of Plan assets), and the Net Pension Liability as of the Measurement Date.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2017	\$ 13,353,979	\$ 12,303,379	\$ 1,050,600
Adjustments	-	-	-
Changes for the year:			
Service Cost	317,276	-	317,276
Interest	700,474	-	700,474
Changes in Benefits	-	-	-
Changes of Assumptions	-	-	-
Differences between expected and actual experience	222,893	-	222,893
Employer Contributions	-	329,320	(329,320)
PMRS Assesment Contributions	-	1,640	(1,640)
Employee Contributions	-	156,066	(156,066)
PMRS Investment Income	-	597,194	(597,194)
Market Value Investment Income	-	(1,014,726)	1,014,726
Benefit Payments	(666,292)	(666,292)	-
PMRS Administration Expenses	-	(1,640)	1,640
Additional Administration Expenses	-	(26,650)	26,650
Net Changes	574,351	(625,088)	1,199,439
Balances at 12/31/2018	<u>\$ 13,928,330</u>	<u>\$ 11,678,291</u>	<u>\$ 2,250,039</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 4.25%	Current Discount Rate 5.25%	1% Increase in Discount Rate 6.25%
Total Pension Liability	\$ 15,660,725	\$ 13,928,330	\$ 12,464,209
Plan Fiduciary Net Position	11,678,291	11,678,291	11,678,291
Net Pension Liability	<u>\$ 3,982,434</u>	<u>\$ 2,250,039</u>	<u>\$ 785,918</u>
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	74.57%	83.85%	93.69%

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Components of Pension Expense for Year Ended December 31, 2019 (Measurement Year Ending 12/31/18)

Service Cost	\$ 317,276
Interest on the Total Pension Liability	700,474
Differences between Expected and Actual Experience	130,651
Changes in Assumptions	56,207
Employee Contributions	(156,066)
Projected Earnings on Pension Plan Investments	(597,194)
Difference between Projected and Actual Earnings on Investments	(7,721)
Pension Plan Administrative Expense	28,290
Insurance Premiums	-
Other Changes in Net Fiduciary Position	-
Total Pension Expense	\$ 471,917

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2019, the actuarially determined pension expense is \$471,917. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2019:

Deferred Outflows and Inflows of Resources Related to Pension

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences in Projected and Actual Experience	\$ 35	\$ 328,719
Changes in Actuarial Assumptions	7,645	180,090
Net Difference in Projected and Actual Earnings on Plan Investments	-	74,096
Contributions Subsequent to the Measurement Date	-	373,686
Totals	\$ 7,680	\$ 956,591

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

2019	\$ 199,092
2020	32,807
2021	66,083
2022	240,095
2023	37,148
Thereafter	-

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability	\$ 1,199,439
Change in Deferred (Outflows) of Resources	(106,290)
Change in Deferred Inflows of Resources	(952,192)
Employer Contributions	330,960
Total Pension Expense	\$ 471,917

Police Pension Plan

Plan Description

The 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Eligibility

All full-time members of the police force join the plan upon employment.

Normal Retirement

A member is eligible for normal retirement after attainment of age 50 and completion of 25 years of vesting service.

The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse, or eligible child, equal to 50% of the amount payable to the member at the time of the member's death.

The amount of monthly pension is equal to 50% of average monthly compensation.

Average monthly compensation is based upon the gross compensation during the last 36 months of employment, excluding unused vacation, holidays, compensatory time, and any other lump sum paid on account of termination of employment.

Late Retirement

If a member continues working after his normal retirement date, his pension does not start until he actually retires. The monthly late retirement pension is equal to the benefit accrued to the late retirement date.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Early Retirement

A member is eligible for early retirement after completion of 20 years of vesting service. The early retirement pension is equal to the actuarial equivalent of the benefit accrued to the early retirement date.

Disability Retirement

If an active member is disabled in the line of duty, he is eligible for a disability pension. The monthly disability pension is equal to 50% of average monthly compensation, but no less than 50% of the member's monthly salary at the time of disability, offset by any Social Security disability benefits received by the member for the same injuries.

Cost-of-Living Increase

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.

Death Benefits

If a member is eligible for retirement at the time of death, a monthly death benefit is payable to his surviving spouse, or eligible child, equal to 50% of the monthly benefit the member would have been receiving had been retired at the time of death.

Vesting

A member's benefits vest upon completion of 12 years of vesting service. The vested benefit is a deferred monthly pension beginning at normal retirement equal to the benefit accrued to the date of termination.

Accrued Pension

The benefit accrued at any date other than the normal retirement date is equal to the projected normal retirement benefit multiplied by the ratio of the number of years of benefit service to date to the total number of years of benefit service projected at normal retirement.

Contributions

Members contribute 5.0% of compensation.

Member contributions are credited with 5.25% annual simple interest.

Service Rules

Service is based on complete year, measured from date of employment to date of termination.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Plan Membership:

As of January 1, 2017, the date of the most recent actuarial valuation and December 31, 2018, the plan-year end, plan membership consisted of the following:

	12/31/2018
Inactive Members or Beneficiaries Currently Receiving Benefits	7
Inactive Members Entitled to but not yet Receiving Benefits	-
Active Plan Members	<u>12</u>
TOTAL	<u>19</u>

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 \$139,393.

Net Pension Liability

The net pension liability for December 31, 2019 was measured as of December 31, 2018, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2017 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 in the January 1, 2017 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation:	3.00%
Salary Increases:	5.00% (average, including inflation)
Investment Return:	7.75% (including inflation)
Post retirement Cost-of-Living Increase	3.00%

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

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

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity	60.00%	5.50% - 7.50%
International Equity	10.00%	4.50% - 6.50%
Fixed Income	25.00%	1.00% - 3.00%
Cash	5.00%	0.00% - 1.00%

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 has always met the funding requirements of Pennsylvania law Act 201 of 1984. Act 205 requires full funding of the entry age normal cost-plus plan expenses, as well as amortization of the unfunded liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2017	\$ 5,057,726	\$ 5,765,421	\$ (707,695)
Service Cost	172,852	-	172,852
Interest	396,822	-	396,822
Changes for Experience	-	-	-
Changes for Assumptions	-	-	-
Employer Contributions	-	84,887	(84,887)
Employee Contributions	-	52,446	(52,446)
Net Investment Income	-	(287,559)	287,559
Benefit Payments, including refunds of member contributions)	(220,598)	(220,598)	-
Administration Expenses	-	(4,800)	4,800
Other Changes	-	-	-
Net Changes	349,076	(375,624)	724,700
Balances at 12/31/2018	<u>\$ 5,406,802</u>	<u>\$ 5,389,797</u>	<u>\$ 17,005</u>

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1-percentage-point higher than the current 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	<u>\$ 679,872</u>	<u>\$ 17,005</u>	<u>\$ (539,366)</u>

Components of Pension Expense for Year Ended December 31, 2019 (Measurement Year Ending December 31, 2018)

Service Cost	\$ 172,852
Interest on the Total Pension Liability	396,822
Change of Benefit Terms	-
Differences between Expected and Actual Experience	(58,045)
Changes in Assumptions	9,895
Employee Contributions	(52,446)
Projected Earnings on Pension Plan Investments	(443,408)
Difference between Projected and Actual Earnings on Investments	171,093
Pension Plan Administrative Expense	4,800
Other Changes in Net Fiduciary Position	-
Total Pension Expense	<u>\$ 201,563</u>

Pension Expense and Deferred Outflows and inflows of Resources

For the year ended December 31, 2019, the actuarially determined pension expense is \$201,563. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ 357,836
Net Difference in Projected and Actual Earnings on Plan Investments	726,365	252,158
Changes in Actuarial Assumptions	127,910	30,466
Contributions Subsequent to the Measurement Date	139,393	-
Totals	<u>\$ 993,668</u>	<u>\$ 640,460</u>

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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

2019	\$ 262,336
2020	46,627
2021	13,990
2022	98,043
2023	(48,150)
Thereafter	(19,638)

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Asset, Net of Other Changes	\$ 724,700
Change in Deferred (Outflows) of Resources	(514,338)
Change in Deferred Inflows of Resources	(148,192)
Employer Contributions	139,393
Total Pension Expense	\$ 201,563

Note 11 – Postemployment Benefits Other than Pension:

Plan Description

Police

A police officer who retires after attainment of age 50 and completion of 25 years of service will be permitted to continue medical, prescription drug, dental, and vision coverage through the Borough for the retiree only. The retiree shall be required to pay 50% of the cost of this coverage, while the Borough pays the remaining 50%. The retiree will be eligible for one year of coverage for every five years of employment, with coverage ceasing at age 65, if earlier.

Full-Time Hourly Employees:

Retiring employees are permitted to continue medical, prescription drug, dental, and vision coverage through the Borough for the retiree only. The retiree shall be required to pay 50% of the cost for this coverage, while the Borough pays the remaining 50%. The retiree will be eligible for one year of coverage for every five years of employment, with coverage ceasing at age 65, if earlier.

Full-time Salaried/Confidential Employees:

Retiring employees are permitted to continue medical, prescription drug, dental, and vision coverage through the Borough for the retiree only. The retiree shall be required to pay 50% of the cost for this coverage, while the Borough pays the remaining 50%. The retiree will be eligible for one year of coverage for every three years of employment, with coverage ceasing at age 65, if earlier.

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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

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.

Methods and Assumptions

Discount Rate

3.64% Based on S&P Municipal Bond 20-Year High Grade Rate Index at January 1, 2019.

Salary

An assumption for salary increases is used only for spread contributions over future pay under the entry age normal cost method. For this purpose, annual salary increases are assumed to be 5.0%.

Withdrawal

Age	Rate	Age	Rate	Age	Rate
20	5.5000%	35	2.5000%	50	0.0000%
25	5.0000%	40	1.0000%	55	0.0000%
30	4.0000%	45	0.5000%	60	0.0000%

Mortality

IRS 2017 Static Combined Table for Small Plans

Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Disability

No disability was assumed

Retirement

Police: The latest of attainment of age 53, age at the completion of 25 years of service, or age on valuation date.

Non-Uniformed Employees: The later of attainment of age 60 or age on valuation date.

Percent of Eligible Retirees Electing Coverage in Plan

50% of employees are assumed to elect coverage.

Per Capita Claims Cost

Making uses of weighted averages for various plan designs, the per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

The resulting costs are as follows:

		Police		Full-time Salaried, Confidential, and Hourly Employees	
		Medical, Rx, Dental, and Vision Combined		Medical, Rx, Dental, and Vision Combined	
Age		Males	Females	Males	Females
45-49	\$	8,448	\$ 12,052	\$ 8,460	\$ 12,064
50-54		11,080	13,578	11,092	13,590
55-59		13,422	14,192	13,434	14,204
60-64		17,414	16,254	17,426	16,266

Retiree Contributions

Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.

Health Care Cost Trend Rate

6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Value of Assets

Equal to the Market Value of Assets

Actuarial Cost Method – Entry Age Normal

Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Participant Data

Based on census information as of January 1, 2018.

Demographic Information	Police	Non-Uniformed Employees	Total
Active Participants	11	43	54
Vested Former Participants	-	-	-
Retired Participants	1	-	1
TOTAL	12	43	55
Annual Payroll of Active Participants	\$ 966,351	\$ 2,280,081	\$ 3,246,432

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Summary Information

Financial Information	Police	Non-Uniformed Employees	Total
Total OPEB Liability	\$ 206,732	\$ 546,398	\$ 753,130
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability (Asset)	206,732	546,398	753,130
Deferred Outflows of Resources	18,414	23,762	42,176
Deferred Inflows of Resources	4,539	17,421	21,960
Plan Fiduciary Net Position as a % of Total OPEB Liability	0.00%	0.00%	0.00%
Net OPEB Liability as of % of Covered-Employee Payroll	21.39%	23.96%	23.20%
OPEB Expense	\$ 15,668	\$ 66,430	\$ 82,098

Changes in the Net OPEB Liability

Total OPEB Liability	Police	Non-Uniformed Employees	Total
Fiscal Year Ending 12/31/2019			
Balance at 1/1/2018	\$ 207,628	\$ 509,995	\$ 717,623
Service Cost	8,852	48,783	57,635
Interest	6,644	17,468	24,112
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experiences	-	-	-
Changes of Assumptions	(4,888)	(18,761)	(23,649)
Benefit Payments	(11,504)	(11,087)	(22,591)
Other Changes	-	-	-
Net Changes	(896)	36,403	35,507
Balance at 1/1/2019	\$ 206,732	\$ 546,398	\$ 753,130

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Deferred Inflows/Outflows

Deferred Outflows of Resources	Police	Non-Uniformed Employees	Total
Differences between Expected and Actual Experiences	\$ -	\$ -	\$ -
Changes of Assumptions	6,258	18,226	24,484
Benefit Payments subsequent to the Measurement Date (1/1/2019)	12,156	5,536	17,692
TOTAL DEFERRED OUTFLOWS	\$ 18,414	\$ 23,762	\$ 42,176

Deferred Inflows of Resources	Police	Non-Uniformed Employees	Total
Differences between Expected and Actual Experiences	\$ -	\$ -	\$ -
Changes of Assumptions	4,539	17,421	21,960
TOTAL DEFERRED INFLOWS	\$ 4,539	\$ 17,421	\$ 21,960

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

Net OPEB Liability (Asset)	Police	Non-Uniformed Employees	Total
1% increase (4.64%)	\$ 196,916	\$ 508,805	\$ 705,721
Current Discount Rate (3.64%)	206,732	546,398	753,130
1% Decrease (2.64%)	217,044	585,980	803,024

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Net OPEB Liability (Asset)	Police	Non-Uniformed Employees	Total
1% Increase	\$ 224,836	\$ 626,584	\$ 851,420
Current Rates	206,732	546,398	753,130
1% Decrease	190,648	479,168	669,816

OPEB Expense and Future Recognition of Deferred Outflows and (Inflows)

OPEB Expense	Police	Non-Uniformed Employees	Total
Fiscal Year Ending 12/31/2019			
Service Cost	\$ 8,852	\$ 48,783	\$ 57,635
Interest on Total OPEB Liability	6,644	17,468	24,112
Changes of Benefit Terms	-	-	-
Contributions - Employee	-	-	-
Amortization of Deferred Outflows	521	1,519	2,040
Amortization of Deferred Inflows	(349)	(1,340)	(1,689)
Other Changes	-	-	-
TOTAL OPEB EXPENSE	\$ 15,668	\$ 66,430	\$ 82,098

Future Deferred Outflows and (Inflows) to be Recognized as OPEB Expense (Income)	Police	Non-Uniformed Employees	Total
Fiscal Year Ending			
2020	\$ 172	\$ 179	\$ 351
2021	172	179	351
2022	172	179	351
2023	172	179	351
2024	172	179	351
Thereafter	859	(90)	769

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Deferred Outflows of Resources

Date	Initial Balance	Annual Recognition	Remaining Balance	Remaining Recognition Period	Type
January 1, 2018	\$ 28,564	\$ 2,040	\$ 26,524	12 Years	Assumption Change
January 1, 2019	23,648	1,689	21,959	13 Years	Assumption Change
TOTAL	\$ 52,212	\$ 3,729	\$ 48,483		

Note 12 – GASB 61 - Condensed Component Unit Data

Condensed Statement of Net Position

	Kutztown Municipal Authority	Kutztown Transportation Authority
ASSETS:		
Cash and Cash Equivalents	\$ 1,369,727	\$ 95,569
Account Receivable	78,130	-
Due from Primary Government	69,030	-
Due from Other funds	41,284	-
Capital Assets, Net of Accumulated Depreciation	1,062,003	-
TOTAL ASSETS:	2,620,174	95,569
LIABILITIES:		
Accounts Payable	73,803	-
Developer Deposits Held	8,000	-
Due to Other Funds	41,284	-
TOTAL LIABILITIES:	123,087	-
NET POSITION:		
Invested in Capital Assets, net of related Debt	1,062,003	-
Restricted	332,570	1,070
Unrestricted	1,102,514	94,499
TOTAL NET POSITION:	\$ 2,497,087	\$ 95,569

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

Condensed Statement of Activities

	Kutztown Municipal Authority	Kutztown Transportation Authority
EXPENSES:		
<i>Major Function:</i>		
Water	\$ 836,067	\$ -
Sewer	118,412	-
Transportation	-	1,819
TOTAL EXPENSES	\$ 954,479	\$ 1,819
PROGRAM REVENUES:		
<i>By Type -</i>		
Water	\$ 969,904	\$ -
Sewer	158,066	-
Grant Income	-	-
Miscellaneous	6,001	1,045
Transportation	-	9,931
Interest Income	6,720	22
TOTAL REVENUES:	1,140,691	10,998
Change in Net Position	186,212	9,179
Beginning Net Position:	2,310,875	86,390
Ending Net Position:	\$ 2,497,087	\$ 95,569

Condensed Statement of Cash Flows

	Kutztown Municipal Authority	Kutztown Transportation Authority
NET CASH PROVIDED (USED) BY:		
Operating Activities	\$ 128,258	\$ 9,157
Non-Operating Activities	12,721	-
Investing Activities	(55,285)	22
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	85,694	9,179
Beginning Cash and Cash Equivalents	1,284,033	86,390
Ending Cash and Cash Equivalents	\$ 1,369,727	\$ 95,569

Note 13 - Contingencies

The Borough of Kutztown is not currently involved in any material litigations proceedings.

Note 14 – 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.

BOROUGH OF KUTZTOWN
Notes to Financial Statements
Year Ended December 31, 2019

The Borough received federal and state grants for specific purposes which are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the grantor agency in the event that an expenditure under the program is disallowed. In the opinion of Borough Management, such disallowances, if any, will not be significant.

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 15 – 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	140,927
Fire Protection Fund	217,254
Recreation Tax Fund	85,987
Road Tax Fund	231,473
General Fund	108,829
TOTAL	\$ 784,470

Note 16 – Subsequent Events

On March 13, 2020, the President of the United States declared a national emergency concerning the novel coronavirus disease (COVID-19) outbreak.

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Borough's financial condition and future results of operations. Management is actively monitoring the situation and its impact on the Borough's financial condition. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Borough is currently not able to estimate the effects of the coronavirus on its results of operations and financial condition.

While the Borough considers these disruptions to be temporary, if it continues, the situation could have an adverse effect on the Borough's future operations.

The subsequent events have been evaluated through August 19, 2020, 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, 2019, 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 August 19, 2020.

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 purposes 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.

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.

August 19, 2020

BOROUGH OF KUTZTOWN
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

SECTION I – AUDIT FINDINGS

Material Weakness

19.01 – 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 and implemented a new accounting software during the year to help ease the process.

Significant Deficiencies

19.02 – 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 were aware that the prior accounting software system did create serious limitations on the way transactions were processed and implemented a new accounting software during the year.

BOROUGH OF KUTZTOWN
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Corrective Action Plan: We implemented a more efficient accounting software program during the year to help correct this issue. However, the results have not yet been fully evaluated over the course of a full year.

SECTION II – SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Material Weakness

18.01 – General Ledger Accounts Reconciliations

Condition: General Ledger accounts should be reconciled on a monthly basis.

Comments: This condition has not been corrected and is cited as a current year material weakness as finding 19.01.

Significant Deficiencies

18.02 – Recording of Revenues and Expenses

Condition: Recording of Revenues and Expenses

Comments: This condition has not been corrected and is cited as a current year significant deficiency as finding 19.02.

REQUIRED SUPPLEMENTAL INFORMATION

BOROUGH OF KUTZTOWN
Required Supplementary Information
December 31, 2019
Schedule of Changes in the Net Pension Liability and Related Ratios
Non-Uniform Pension Plan
Last Ten Years*

	Measurement Year Ending				
	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
<u>Total Pension Liability</u>					
Service Cost	\$ 317,276	\$ 303,765	\$ 279,381	\$ 293,645	\$ 309,223
Interest Cost	700,474	683,899	676,308	665,766	629,985
Changes of Benefit Terms	-	-	-	-	-
Differences between Expected and Actual Experience*	222,893	-	148,378	(103)	412,732
Changes of Assumptions	-	-	360,183	(22,941)	-
Transfers	-	-	-	-	-
Benefit Payments, including Refunds of Employee Contributions	(666,292)	(704,131)	(811,004)	(652,185)	(718,313)
Net Change in Total Pension Liability	574,351	283,533	653,246	284,182	633,627
Total Pension Liability - Beginning	13,353,979	13,070,446	12,417,200	12,133,018	11,499,391
Total Pension Liability - Ending	\$ 13,928,330	\$ 13,353,979	\$ 13,070,446	\$ 12,417,200	\$ 12,133,018
<u>Plan Fiduciary Net Position</u>					
Contributions - Employer	329,320	324,658	248,758	239,405	81,890
Contributions - PMRS Assessment	1,640	1,680	1,700	1,720	-
Contributions - Employee	156,066	149,420	144,183	136,830	130,236
PMRS Investment Income	597,194	580,709	610,623	571,531	563,912
Market Value Investment Income	(1,014,726)	1,293,827	147,220	(487,496)	99,776
Transfers	-	-	-	-	-
Benefit Payments, including Refunds of Employee Contributions	(666,292)	(704,131)	(811,004)	(652,185)	(718,313)
PMRS Administrative Expense	(1,640)	(1,620)	(1,660)	(1,720)	(1,640)
Additional Administrative Expense	(26,650)	(26,706)	(29,915)	(23,826)	(21,626)
Net Change in Plan Fiduciary Net Position	\$ (625,088)	\$ 1,617,837	\$ 309,905	\$ (215,741)	\$ 134,235
Plan Fiduciary Net Position - Beginning	12,303,379	10,685,542	10,375,637	10,591,378	10,457,143
Plan Fiduciary Net Position - Ending	\$ 11,678,291	\$ 12,303,379	\$ 10,685,542	\$ 10,375,637	\$ 10,591,378
Net Pension Liability - Ending	\$ 2,250,039	\$ 1,050,600	\$ 2,384,904	\$ 2,041,563	\$ 1,541,640
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 83.85%	 92.13%	 81.75%	 83.56%	 87.29%
Covered Employee Payroll	\$ 2,505,074	\$ 2,398,399	\$ 2,314,341	\$ 2,196,450	\$ 2,324,479
Net Pension Liability as a Percentage of Covered Employee Payroll	89.82%	43.80%	103.05%	92.95%	66.32%

*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, 2019
Schedule of Changes in the Net Pension Liability and Related Ratios
Police Pension Plan
Last Ten Years*

	Measurement Year Ending				
	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
<u>Total Pension Liability</u>					
Service Cost	\$ 172,852	\$ 164,621	\$ 139,939	\$ 133,275	\$ 130,581
Interest Cost	396,822	371,059	351,351	328,582	332,098
Changes for Experience	-	(225,370)	-	(319,572)	-
Changes of Assumptions	-	159,888	-	(54,842)	-
Benefit Payments, including Refunds of Member Contributions	(220,598)	(202,383)	(190,002)	(159,444)	(113,222)
Net Change in Total Pension Liability	349,076	267,815	301,288	(72,001)	349,457
Total Pension Liability - Beginning	5,057,726	4,789,911	4,488,623	4,560,624	4,211,167
Total Pension Liability - Ending	\$ 5,406,802	\$ 5,057,726	\$ 4,789,911	\$ 4,488,623	\$ 4,560,624
<u>Plan Fiduciary Net Position</u>					
Contributions - Employer	84,887	81,099	85,978	179,232	168,437
Contributions - Member	52,446	51,081	48,604	48,205	48,132
Net Investment Income	(287,559)	807,488	212,912	(4,999)	252,593
Benefit Payments, including Refunds of Member Contributions	(220,598)	(202,383)	(190,002)	(159,444)	(113,222)
Administrative Expense	(4,800)	(6,800)	(6,300)	(8,700)	-
Net Change in Plan Fiduciary Net Position	\$ (375,624)	\$ 730,485	\$ 151,192	\$ 54,294	\$ 355,940
Plan Net Position - Beginning	5,765,421	5,034,936	4,883,744	4,829,450	4,473,510
Plan Net Position - Ending	\$ 5,389,797	\$ 5,765,421	\$ 5,034,936	\$ 4,883,744	\$ 4,829,450
Borough's Net Pension Liability (Asset)	\$ 17,005	\$ (707,695)	\$ (245,025)	\$ (395,121)	\$ (268,826)
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 99.68%	 113.99%	 105.12%	 108.80%	 105.89%
Covered Employee Payroll	\$ 1,078,518	\$ 966,351	\$ 992,971	\$ 983,083	\$ 901,757
Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	1.06%	(73.23%)	(24.68%)	(40.19%)	(29.81%)

*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, 2019
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
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%
2016	250,418	250,458	(40)	2,314,341	10.82%
2017	326,278	326,338	(60)	2,398,399	13.61%
2018	330,960	330,960	-	2,505,074	13.21%

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 2017 is based upon the January 1, 2015 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, 2019
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
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%
2017	81,099	81,099	-	966,351	8.39%
2018	84,887	84,887	-	1,078,518	7.87%

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, 2019
Schedule of Changes in the Net OPEB Liabilities and Related Ratios

	Measurement Year Ending 12/31/2019	Measurement Year Ending 12/31/2018
<u>Total OPEB Liability</u>		
Service Cost	\$ 57,635	\$ 50,567
Interest Cost	24,112	24,999
Changes in Benefit Terms	-	-
Differences between Expected and Actual Experience	-	-
Changes of Assumptions	(23,649)	28,564
Benefit Payments	(22,591)	(21,312)
Other Changes	-	-
Net Change in OPEB Liability	35,507	82,818
Total OPEB Liability - Beginning	717,623	634,805
Total OPEB Liability - Ending	<u>\$ 753,130</u>	<u>\$ 717,623</u>
 Covered Employee Payroll	 <u>\$ 3,246,432</u>	 <u>\$ 3,246,432</u>
 Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	 <u>23.20%</u>	 <u>22.10%</u>

*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.

OTHER SUPPLEMENTAL INFORMATION

BOROUGH OF KUTZTOWN
Combining Balance Sheet
All Special Revenue Funds
For the Year Ended December 31, 2019

	NON-MAJOR				TOTAL
	FIRE PROTECTION FUND	RECREATION TAX FUND	ROAD TAX FUND	HIGHWAY AID FUND	SPECIAL REVENUE FUNDS
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 216,083	\$ 84,816	\$ 228,544	\$ 140,927	\$ 670,370
Real Estate Taxes Receivable	1,171	1,171	2,929	-	5,271
Due from Other Funds	-	-	-	-	-
TOTAL ASSETS	\$ 217,254	\$ 85,987	\$ 231,473	\$ 140,927	\$ 675,641
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-
<u>FUND BALANCES:</u>					
Nonspendable	-	-	-	-	-
Restricted	217,254	85,987	231,473	140,927	675,641
TOTAL FUND BALANCES	217,254	85,987	231,473	140,927	675,641
TOTAL LIABILITIES AND FUND BALANCES	\$ 217,254	\$ 85,987	\$ 231,473	\$ 140,927	\$ 675,641

BOROUGH OF KUTZTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Special Revenue Funds
For the Year Ended December 31, 2019

	NON-MAJOR				TOTAL
	FIRE PROTECTION FUND	RECREATION TAX FUND	ROAD TAX FUND	HIGHWAY AID FUND	SPECIAL REVENUE FUNDS
REVENUES					
Real Estate Taxes	\$ 76,390	\$ 76,390	\$ 190,976	\$ -	\$ 343,756
Liquid Fuels Tax	-	-	-	156,197	156,197
Investment Earnings	1,388	881	756	4,994	8,019
TOTAL REVENUES	<u>77,778</u>	<u>77,271</u>	<u>191,732</u>	<u>161,191</u>	<u>507,972</u>
EXPENDITURES					
General Government	-	-	-	-	-
Public Safety	783	-	-	-	783
Public Works	-	-	3,133	-	3,133
Culture and Recreation	-	1,319	-	-	1,319
Community Development	-	-	-	-	-
Debt Service	-	-	-	-	-
TOTAL EXPENDITURES	<u>783</u>	<u>1,319</u>	<u>3,133</u>	<u>-</u>	<u>5,235</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>76,995</u>	<u>75,952</u>	<u>188,599</u>	<u>161,191</u>	<u>502,737</u>
OTHER FINANCING SOURCES (SOURCES)					
Transfers In	-	-	-	-	-
Transfers Out	(4,250)	(75,000)	-	(121,894)	(201,144)
TOTAL OTHER FINANCING SOURCES	<u>(4,250)</u>	<u>(75,000)</u>	<u>-</u>	<u>(121,894)</u>	<u>(201,144)</u>
NET CHANGES IN FUND BALANCE	72,745	952	188,599	39,297	301,593
FUND BALANCES - BEGINNING	144,509	85,035	42,874	101,630	374,048
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-
FUND BALANCES - ENDING	<u>\$ 217,254</u>	<u>\$ 85,987</u>	<u>\$ 231,473</u>	<u>\$ 140,927</u>	<u>\$ 675,641</u>

BOROUGH OF KUTZTOWN
Combining Statement of Net Position
All Proprietary Funds
As December 31, 2019

	MAJOR				NON-MAJOR	
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,211,941	\$ 756,663	\$ 1,197,133	\$ -	\$ 815,195	\$ 4,980,932
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	703,386	175,231	182,182	52,715	90,863	1,204,377
Prepaid Expenses	15,874	13,579	22,759	11,691	2,422	66,325
Due from Other Funds	99,112	127,025	41,581	33,971	46,476	348,165
TOTAL CURRENT ASSETS	3,030,313	1,072,498	1,443,655	98,377	954,956	6,599,799
NON-CURRENT ASSETS:						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	1,219,127	5,655,233	5,856,994	54,900	99,721	12,885,975
Machinery and Equipment (Net of Depreciation)	1,073,308	5,878,979	9,819,125	2,015,003	358,067	19,144,482
Unamortized Bond Costs	23,883	314,175	127,273	-	-	465,331
TOTAL NON-CURRENT ASSETS	2,316,318	12,325,794	16,616,684	2,071,325	457,788	33,787,909
TOTAL ASSETS	\$ 5,346,631	\$ 13,398,292	\$ 18,060,339	\$ 2,169,702	\$ 1,412,744	\$ 40,387,708
DEFERRED OUTFLOWS OF RESOURCES						
	\$ 198,726	\$ 154,351	\$ 131,112	\$ 111,984	\$ 86,143	\$ 682,316
LIABILITIES						
CURRENT LIABILITIES:						
Accounts Payable	\$ 568,035	\$ 52,346	\$ 71,812	\$ 30,356	\$ 14,606	\$ 737,155
Accrued Salaries and Benefits	28,043	21,277	18,130	15,186	11,848	94,484
Sales Tax Payable	-	-	-	-	-	-
Customer Deposits	152,325	-	-	-	-	152,325
Due to Other Funds	40,000	-	-	-	-	40,000
Interest Payable	9,565	8,998	54,477	-	-	73,040
Notes Payable	155,000	500,000	440,000	-	-	1,095,000
TOTAL CURRENT LIABILITIES	952,968	582,621	584,419	45,542	26,454	2,192,004
NON-CURRENT LIABILITIES:						
Other Post Employment Benefits	110,760	86,027	73,075	62,414	48,012	380,288
Net Pension Liability	456,102	354,255	300,918	257,019	197,709	1,566,003
Notes Payable	1,470,000	8,030,000	5,900,000	-	-	15,400,000
TOTAL NON-CURRENT LIABILITIES	2,036,862	8,470,282	6,273,993	319,433	245,721	17,346,291
TOTAL LIABILITIES	2,989,830	9,052,903	6,858,412	364,975	272,175	19,538,295
DEFERRED INFLOWS OF RESOURCES						
	\$ 5,088	\$ 3,952	\$ 3,357	\$ 2,867	\$ 2,206	\$ 17,470
NET POSITION						
Invested in Capital Assets, Net of Related Debt	667,435	3,481,619	10,149,411	2,071,325	457,788	16,827,578
Restricted	-	-	-	-	-	-
Unrestricted Net Position	1,883,004	1,014,169	1,180,271	(157,481)	766,718	4,686,681
TOTAL NET POSITION	\$ 2,550,439	\$ 4,495,788	\$ 11,329,682	\$ 1,913,844	\$ 1,224,506	\$ 21,514,259

BOROUGH OF KUTZTOWN
Combining Statement of Additions, Deductions and Changes in Net Position
All Proprietary Funds
For the Year Ended December 31, 2019

	MAJOR				NON-MAJOR	
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 6,476,416	\$ 1,916,914	\$ 2,122,241	\$ 545,341	\$ 868,791	\$ 11,929,703
Penalties	44,188	10,430	10,489	-	7,091	72,198
Other Fees	-	173,925	20,840	-	-	194,765
Rental Income	95,098	-	-	82,256	-	177,354
Other Income	15,262	12,359	6,715	50,849	44,418	129,603
SCADA and Equipment Lease	-	-	-	127,860	-	127,860
TOTAL OPERATING REVENUES	6,630,964	2,113,628	2,160,285	806,306	920,300	12,631,483
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	3,116,985	754,125	595,811	279,705	384,572	5,131,198
Employee Wages	535,433	415,872	353,258	301,722	232,096	1,838,381
Employee Benefits	271,551	236,429	192,515	148,967	124,958	974,420
Employee Pension	68,272	60,165	57,396	46,451	58,198	290,482
Insurance	81,782	155,436	117,206	27,394	18,897	400,715
Debt Service	76,855	422,357	162,427	16,337	-	677,976
Depreciation	138,196	402,389	514,224	319,839	86,876	1,461,524
TOTAL OPERATING EXPENSES	4,289,074	2,446,773	1,992,837	1,140,415	905,597	10,774,696
OPERATING INCOME (LOSS)	2,341,890	(333,145)	167,448	(334,109)	14,703	1,856,787
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	59,423	12,615	23,571	2,768	15,051	113,428
State Grants	-	-	-	-	5,349	5,349
Transfers from Other Funds	14,368	447,399	8,661	3,251	968	474,647
Transfers to Other Funds	(2,246,711)	(4,159)	(2,289)	(1,381)	(8,466)	(2,263,006)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,172,920)	455,855	29,943	4,638	12,902	(1,669,582)
CHANGES IN NET POSITION	168,970	122,710	197,391	(329,471)	27,605	187,205
NET POSITION, JANUARY 1, 2019	2,381,469	4,373,078	11,132,291	2,243,315	1,196,901	21,327,054
NET POSITION, DECEMBER 31, 2019	\$ 2,550,439	\$ 4,495,788	\$ 11,329,682	\$ 1,913,844	\$ 1,224,506	\$ 21,514,259

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

BOROUGH OF KUTZTOWN
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 436,801	
Real Estate Taxes - Prior	23,680	
Real Estate Transfer Tax	81,462	
Earned Income Tax	447,224	
Per Capita	8,411	
Local Services Tax	74,659	
Admissions Tax	29,790	
Mechanical Tax	360	
	<u>360</u>	\$ 1,102,387

FINES AND FORFEITS:

Motor Vehicle Violations	9,323	
Fines	37,480	
Criminal Violations	14,105	
Parking Tickets	42,125	
	<u>42,125</u>	103,033

LICENSES AND PERMITS:

Franchise Fee Cable	36,774	
Permits/Reports	154,449	
	<u>154,449</u>	191,223

INTERGOVERNMENTAL:

In Lieu of Taxes - PURTA	1,313	
Beverage Licenses	1,150	
Pension State Aid	343,073	
Allotment - Fireman's Relief	25,744	
State Grants	16,910	
	<u>16,910</u>	388,190

CHARGES FOR SERVICES:

General Government	3,092	
Public Safety	127,113	
Highways and Streets	-	
Culture and Recreation	77,341	
	<u>77,341</u>	207,546

INVESTMENT AND RENTAL EARNINGS:

Interest Income	37,272	
Rentals	403,130	
	<u>403,130</u>	440,402

MISCELLANEOUS:

Contributions and Donations	14,500	
Reimbursements	244,896	
Refund of Prior Year Expenditure	107,239	
Other	37,140	
	<u>37,140</u>	403,775

TOTAL REVENUES	\$ 2,836,556
-----------------------	---------------------

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor	\$ 14,564
-----------	-----------

MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Employee Wages	115,107
Employee Benefits	88,285
Employee Pension	17,918
Insurance	32,953
Contracted Services	160,062
Advertising, Printing and Postage	9,135
Vehicle Expenses	659
Operating/Office Expenses	22,479
Dues, Meetings and Training	12,720
Small Tools, Equipment and Building	70,681

FINANCE AND ACCOUNTING:

Salary	419
Employee Benefits	32
Employee Pension	-
Audit and Accounting Fees	12,843

TAX COLLECTION:

Employee Wages	-
Employee Benefits	-
Contracted Services	2,041

ENGINEERING:

Engineering Fees	1,384
------------------	-------

BUILDINGS AND PLANT:

Employee Wages	16,183
Employee Benefits	16,054
Employee Pension	820
Operating Supplies	6,031
Heating and Utilities	46,274
Insurance	9,930
Repairs and Maintenance	13,063
Contracted Services	7,291

TOTAL GENERAL GOVERNMENT	\$ 676,928
---------------------------------	-------------------

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

PUBLIC SAFETY

POLICE:

Employee Wages	\$ 1,297,735
Employee Benefits	440,757
Employee Pension	138,681
Operating Supplies	33,578
Vehicle Maintenance and Repair	30,155
Uniforms	7,870
Training, Seminars, Certs	10,820
Ammunition	8,757
Insurance	52,284
Legal	1,841
Dues, Subs and Memberships	909
Small Tools and Equipment	30,994
Telephone/Communications	130,648
Postage, Printing and Advertising	5,676
Repairs and Maintenance	2,974
Refuse	505
Contracted Services	42,038
Capital Purchases	115,669

FIRE AND AMBULANCE:

Rent of Machine & Equipment	58,450
Insurance	1,040
Telephone/Communications	37,584
Contributions	-
Foreign Fire Tax Disbursement	38,230
Other Services	233

INSPECTIONS AND ZONING:

Employee Wages	131,777
Employee Benefits	94,837
Employee Pension	10,833
Vehicle Maintenance and Repair	642
Heating and Utilities	7,223
Operating Supplies	9,833
Telephone/Communications	6,309
Training, Seminars, Certs	725
Legal Services	7,146
Engineering Services	1,160
Small Tools and Equipment	1,642
Postage, Printing and Advertising	6,219
Insurance	509
Dues, Subs and Memberships	463
Rent of Building	15,000
Repairs and Maintenance	-
Contracted Services	65,719

EMERGENCY MANAGEMENT:

Training, Seminars, Certs	-
Operating Supplies	-
Postage, Printing and Advertising	120
Insurance	-
Contracted Services	235

TOTAL PUBLIC SAFETY	\$	2,847,820
----------------------------	----	-----------

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

PUBLIC WORKS

STREET MAINTENANCE AND LIGHTING:

Employee Wages	\$ 220,500	
Employee Benefits	112,846	
Employee Pension	26,474	
Training, Seminars, Certs	148	
Operating Supplies	11,347	
Vehicle Maintenance and Repairs	11,910	
Uniforms	2,103	
Insurance	13,465	
Small Tools and Equipment	809	
Repairs and Maintenance Land & Equip	32,964	
Engineering Services	8,162	
Telephone/Communications	2,912	
Postage, Printing and Advertising	943	
Contracted Services	19,909	
Rent of Building	34,867	
Heating and Utilities	62,513	
Dues, Subs and Memberships	5,162	
Capital Improvements	275,472	
Snow Removal Materials	17,355	
TOTAL PUBLIC WORKS		\$ 859,861

CULTURE AND RECREATION

PARKS AND POOL:

Employee Wages	319,021	
Employee Benefits	92,053	
Employee Pension	33,444	
Training, Seminars, Certs	145	
Operating Supplies	24,188	
Small Tools and Equipment	2,700	
Insurance	15,223	
Vehicle Maintenance and Repairs	3,345	
Telephone/Communications	-	
Postage, Printing and Advertising	10,911	
Heating and Utilities	38,975	
Repairs and Maint Building, Land & Equip	22,034	
Contracted Services	21,897	
Contributions	3,000	
YMCA Programs	6,500	
Chemicals	7,354	
Capital Purchases	66,117	
TOTAL CULTURE AND RECREATION		\$ 666,907

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

DEBT SERVICE

Debt Principal	\$	125,000	
Interest Expense		5,900	
Amortization and Other Issuance Costs		<u>-</u>	

TOTAL DEBT SERVICE \$ 130,900

UNCLASSIFIED EXPENDITURES

C, G & S to Non-Profits	37,824	
Other Miscellaneous	<u>1,494</u>	

TOTAL UNCLASSIFIED EXPENDITURES \$ 39,318

TOTAL EXPENDITURES 5,221,734

DEFICIENCY OF REVENUES OVER EXPENDITURES (2,385,178)

**OTHER FINANCING SOURCES AND
OTHER FINANCING USES**

Sale of Fixed Assets	-	
Refund of Prior Year Expenditures	-	
Interfund Transfers In	1,989,658	
Interfund Transfers Out	<u>(155)</u>	<u>1,989,503</u>

NET CHANGE IN FUND BALANCES (395,675)

FUND BALANCE - JANUARY 1, 2019 1,707,957

FUND BALANCE - DECEMBER 31, 2019 **\$ 1,312,282**

BOROUGH OF KUTZTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 6,556,980	\$ 6,476,416
Penalties	20,000	44,188
Rental Income	85,818	95,098
Other Income	8,300	15,262
TOTAL OPERATING REVENUES	<u>6,671,098</u>	<u>6,630,964</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	3,622,210	3,116,985
Employee Wages	484,901	535,433
Employee Benefits	232,032	271,551
Employee Pension	43,460	68,272
Insurance	79,802	81,782
Debt Service	230,800	76,855
Depreciation	-	138,196
TOTAL OPERATING EXPENSES	<u>4,693,205</u>	<u>4,289,074</u>
OPERATING INCOME	<u>1,977,893</u>	<u>2,341,890</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	4,000	59,423
Transfers from Other Funds	-	14,368
Transfers to Other Funds	(1,980,402)	(2,246,711)
TOTAL NON-OPERATING (EXPENSES)	<u>(1,976,402)</u>	<u>(2,172,920)</u>
CHANGES IN NET POSITION	1,491	168,970
NET POSITION, JANUARY 1, 2019	<u>(1,491)</u>	<u>2,381,469</u>
NET POSITION, DECEMBER 31, 2019	<u>\$ -</u>	<u>\$ 2,550,439</u>

BOROUGH OF KUTZTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,934,571	\$ 1,916,914
Penalties	1,000	10,430
Other Fees	12,000	173,925
Rental Income	5,000	-
Other Income	47,600	12,359
TOTAL OPERATING REVENUES	<u>2,000,171</u>	<u>2,113,628</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	574,996	754,125
Employee Wages	408,094	415,872
Employee Benefits	197,942	236,429
Employee Pension	39,396	60,165
Insurance	133,619	155,436
Debt Service	631,511	422,357
Depreciation	-	402,389
TOTAL OPERATING EXPENSES	<u>1,985,558</u>	<u>2,446,773</u>
OPERATING INCOME (LOSS)	<u>14,613</u>	<u>(333,145)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	2,000	12,615
Transfers from Other Funds	-	447,399
Transfers to Other Funds	-	(4,159)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>2,000</u>	<u>455,855</u>
CHANGES IN NET POSITION	16,613	122,710
NET POSITION, JANUARY 1, 2019	<u>(16,613)</u>	<u>4,373,078</u>
NET POSITION, DECEMBER 31, 2019	<u>\$ -</u>	<u>\$ 4,495,788</u>

BOROUGH OF KUTZTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,921,618	\$ 2,122,241
Penalties	1,000	10,489
Other Fees	-	20,840
Other Income	<u>62,400</u>	<u>6,715</u>
TOTAL OPERATING REVENUES	<u>1,985,018</u>	<u>2,160,285</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	750,621	595,811
Employee Wages	360,851	353,258
Employee Benefits	159,025	192,515
Employee Pension	33,214	57,396
Insurance	122,480	117,206
Debt Service	590,058	162,427
Depreciation	<u>-</u>	<u>514,224</u>
TOTAL OPERATING EXPENSES	<u>2,016,249</u>	<u>1,992,837</u>
OPERATING INCOME	<u>(31,231)</u>	<u>167,448</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	1,000	23,571
Transfers from Other Funds	-	8,661
Transfers to Other Funds	<u>-</u>	<u>(2,289)</u>
TOTAL NON-OPERATING (EXPENSES)	<u>1,000</u>	<u>29,943</u>
CHANGES IN NET POSITION	(30,231)	197,391
NET POSITION, JANUARY 1, 2019	<u>30,231</u>	<u>11,132,291</u>
NET POSITION, DECEMBER 31, 2019	<u>\$ -</u>	<u>\$ 11,329,682</u>

BOROUGH OF KUTZTOWN
Telecommunications Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 676,000	\$ 545,341
Rental Income	70,164	82,256
SCADA and Equipment Lease	134,120	127,860
Other Income	11,000	50,849
TOTAL OPERATING REVENUES	<u>891,284</u>	<u>806,306</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Service	396,745	279,705
Employee Wages	303,640	301,722
Employee Benefits	115,505	148,967
Employee Pension	31,006	46,451
Insurance	24,657	27,394
Debt Service	154,400	16,337
Depreciation	-	319,839
TOTAL OPERATING EXPENSES	<u>1,025,953</u>	<u>1,140,415</u>
OPERATING (LOSS)	<u>(134,669)</u>	<u>(334,109)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	100	2,768
Transfers to Other Funds	-	(1,381)
Transfers from Other Funds	-	3,251
TOTAL NON-OPERATING REVENUES	<u>100</u>	<u>4,638</u>
CHANGES IN NET POSITION	(134,569)	(329,471)
NET POSITION, JANUARY 1, 2019	<u>134,569</u>	<u>2,243,315</u>
NET POSITION, DECEMBER 31, 2019	<u>\$ -</u>	<u>\$ 1,913,844</u>

BOROUGH OF KUTZTOWN
Refuse and Recycling Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 868,449	\$ 868,791
Penalties	-	7,091
Other Income	8,000	44,418
TOTAL OPERATING REVENUES	<u>876,449</u>	<u>920,300</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Service	387,950	384,572
Employee Wages	325,699	232,096
Employee Benefits	163,939	124,958
Employee Pension	36,112	58,198
Insurance	17,042	18,897
Depreciation	-	86,876
TOTAL OPERATING EXPENSES	<u>930,742</u>	<u>905,597</u>
OPERATING (LOSS)	<u>(54,293)</u>	<u>14,703</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	200	15,051
State Grants	4,800	5,349
Transfers to Other Funds	-	(8,466)
Transfer from Other Funds	40,000	968
TOTAL NON-OPERATING REVENUES	<u>45,000</u>	<u>12,902</u>
CHANGES IN NET POSITION	(9,293)	27,605
NET POSITION, JANUARY 1, 2019	<u>9,293</u>	<u>1,196,901</u>
NET POSITION, DECEMBER 31, 2019	<u><u>\$ -</u></u>	<u><u>\$ 1,224,506</u></u>

BOROUGH OF KUTZTOWN
Highway Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

FUND BALANCE - JANUARY 1, 2019	\$	101,630
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$	156,197
INVESTMENT EARNINGS:		
Interest Earnings	4,994	161,191
	<u> </u>	<u> </u>
TOTAL FUNDS AVAILABLE		262,821
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$	-
OTHER FINANCING USES:		
Transfer To Other Funds	121,894	121,894
	<u> </u>	<u> </u>
FUND BALANCE - DECEMBER 31, 2019	\$	<u>140,927</u>

Fire Protection Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2019

FUND BALANCE - JANUARY 1, 2019	\$	144,509
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$	76,390
Interest Earnings	1,388	
OTHER FINANCING SOURCES:		
Transfer from Other Funds	-	77,778
	<u> </u>	<u> </u>
TOTAL FUNDS AVAILABLE		222,287
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC SAFETY:		
Salaries & Wages	\$	701
Employee Benefits	54	
Other Services	28	
C, G & S To Non-Profits	-	
OTHER FINANCING USES:		
Transfer To Other Funds	4,250	5,033
	<u> </u>	<u> </u>
PRIOR PERIOD ADJUSTMENT		-
		<u> </u>
FUND BALANCE - DECEMBER 31, 2019	\$	<u>217,254</u>

BOROUGH OF KUTZTOWN
Recreation Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2019

FUND BALANCE - JANUARY 1, 2019		\$ 85,035
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$ 76,390	
Interest Earnings	881	
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	77,271
TOTAL FUNDS AVAILABLE		162,306
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
CULTURE AND RECREATION:		
Salaries & Wages	\$ 1,120	
Employee Benefits	85	
Other Services	114	
OTHER FINANCING USES:		
Transfer To Other Funds	75,000	76,319
PRIOR PERIOD ADJUSTMENT		-
FUND BALANCE - DECEMBER 31, 2019		\$ 85,987

Road Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2019

FUND BALANCE - JANUARY 1, 2019		\$ 42,874
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$ 190,976	
Interest Earnings	756	
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	191,732
TOTAL FUNDS AVAILABLE		234,606
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Salaries & Wages	\$ 2,804	
Employee Benefits	215	
Other Services	114	
OTHER FINANCING USES:		
Transfer To Other Funds	-	3,133
PRIOR PERIOD ADJUSTMENT		-
FUND BALANCE - DECEMBER 31, 2019		\$ 231,473

BOROUGH OF KUTZTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2019

NET POSITION - BEGINNING OF YEAR		\$ 5,387,317
ADDITIONS:		
State Aid	\$ 139,393	
Employee Contributions	55,152	
Miscellaneous	-	
INVESTMENT EARNINGS:		
Interest and Dividends	127,718	
Realized Gains (Losses)	156,468	
Change in Fair Value of Investments	<u>861,002</u>	
TOTAL ADDITIONS	<u>1,339,733</u> -----	
DEDUCTIONS:		
Administrative Charges	8,009	
Investment Expenses	61,454	
Employee Benefits	<u>209,505</u>	
TOTAL DEDUCTIONS	<u>278,968</u>	
CHANGE IN NET POSITION		<u>1,060,765</u>
NET POSITION - END OF YEAR		<u><u>\$ 6,448,082</u></u>