

**REPORT ON
BOROUGH OF KUTZTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

BOROUGH OF KUTZTOWN

Financial Statements

For the Year Ended December 31, 2018

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BOROUGH OF KUTZTOWN

Financial Statements

For the Year Ended December 31, 2018

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FINANCIAL SECTION



July 9, 2019

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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios, and the Schedule of Net Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the remaining required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on July 9, 2019, on our consideration of the Borough of Kutztown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Kutztown's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 9, 2019

BASIC FINANCIAL STATEMENTS

BOROUGH OF KUTZTOWN
Statement of Net Position
As of December 31, 2018

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	AUTHORITIES
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 2,280,654	\$ 5,111,093	\$ 7,391,747	\$ 1,370,423
Taxes Receivable	9,128	-	9,128	-
Accounts Receivable (Net)	-	1,198,591	1,198,591	81,699
Prepaid Expenses	30,092	63,344	93,436	-
Net Pension Asset	707,695	-	707,695	-
Internal Balances	-	40,702	- (1)	17,414
Due from Component Units	-	-	-	17,362
TOTAL CURRENT ASSETS	3,027,569	6,413,730	9,400,597	1,486,898
NON-CURRENT ASSETS:				
Land	1,334,868	1,292,121	2,626,989	-
Buildings (Net of Depreciation)	768,290	12,276,586	13,044,876	-
Infrastructure (Net of Depreciation)	6,680,422	-	6,680,422	1,027,609
Machinery and Equipment/Infrastructure (Net of Depreciation)	178,246	20,244,881	20,423,127	-
Unamortized Bond Costs	-	483,941	483,941	-
TOTAL NON-CURRENT ASSETS	8,961,826	34,297,529	43,259,355	1,027,609
TOTAL ASSETS	\$ 11,989,395	\$ 40,711,259	\$ 52,659,952	\$ 2,514,507
DEFERRED OUTFLOWS OF RESOURCES				
	\$ 761,575	\$ 564,292	\$ 1,325,867	\$ -
LIABILITIES				
CURRENT LIABILITIES:				
Internal Balances	\$ 40,702	\$ -	\$ - (1)	\$ 17,414
Due to Component Unit	17,362	-	17,362	-
Sales Tax Payable	-	8,958	8,958	-
Accounts Payable	88,034	545,220	633,254	99,828
Accrued Salaries and Benefits	89,176	81,391	170,567	-
Bonds Payable	80,000	1,140,000	1,220,000	-
Interest Payable	2,595	155,223	157,818	-
Customer Deposits	-	149,900	149,900	-
TOTAL CURRENT LIABILITIES	317,869	2,080,692	2,357,859	117,242
NON-CURRENT LIABILITIES:				
Net Other Post Employment Liability	388,901	328,722	717,623	-
Net Pension Liability	332,554	718,046	1,050,600	-
Bonds Payable	250,000	16,165,000	16,415,000	-
TOTAL NON-CURRENT LIABILITIES	971,455	17,211,768	18,183,223	-
TOTAL LIABILITIES	\$ 1,289,324	\$ 19,292,460	\$ 20,541,082	\$ 117,242
DEFERRED INFLOWS OF RESOURCES				
	\$ 1,092,487	\$ 656,037	\$ 1,748,524	\$ -
NET POSITION				
Invested in Capital Assets, Net of Related Debt	8,631,826	16,508,588	25,140,414	1,027,609
Restricted	480,461	-	480,461	326,899
Unrestricted	1,256,872	4,818,466	6,075,338	1,042,757
TOTAL NET POSITION	\$ 10,369,159	\$ 21,327,054	\$ 31,696,213	\$ 2,397,265

(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, 2018

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	\$ 457,453	\$ 414,633	\$ 315,004	\$ -	\$ 272,184	\$ -	\$ 272,184	
Public Safety	2,459,348	261,064	24,147	-	(2,174,137)	-	(2,174,137)	
Public Works	639,595	-	4,200	152,689	(482,706)	-	(482,706)	
Culture and Recreation	591,077	99,470	-	-	(491,607)	-	(491,607)	
Community Development	-	-	-	-	-	-	-	
Non-Departmental	61,250	-	-	-	(61,250)	-	(61,250)	
Debt Service Payments	7,744	-	-	-	(7,744)	-	(7,744)	
Depreciation	415,340	-	-	-	(415,340)	-	(415,340)	
TOTAL GOVERNMENTAL ACTIVITIES	4,631,807	775,167	343,351	152,689	(3,360,600)	-	(3,360,600)	
BUSINESS-TYPE ACTIVITIES:								
Electric	4,455,973	6,811,489	-	-	-	2,355,516	2,355,516	
Water	2,061,537	2,114,463	-	-	-	52,926	52,926	
Sewer	1,910,246	2,145,303	-	-	-	235,057	235,057	
Telecom	1,447,931	1,035,442	-	-	-	(412,489)	(412,489)	
Refuse	827,318	999,085	-	9,042	-	180,809	180,809	
TOTAL PRIMARY GOVERNMENT	\$ 15,334,812	\$ 13,880,949	\$ 343,351	\$ 161,731	\$ (3,360,600)	\$ 2,411,819	\$ (948,781)	
COMPONENT UNITS								
Municipal Authorities	\$ 928,669	\$ 1,020,674	\$ -	\$ 50,277				\$ 142,282
GENERAL REVENUES:								
Property Taxes Levied for General Purposes					\$ 793,402	\$ -	\$ 793,402	\$ -
Other Taxes Levied for General Purposes					638,534	-	638,534	-
Grants, Subsidies, & Contributions Not Restricted					13,292	-	13,292	-
Investment and Rental Earnings					436,787	294,913	731,700	5,237
Miscellaneous Income					154,823	-	154,823	30,025
Transfers					2,078,423	(2,078,423)	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					4,115,261	(1,783,510)	2,331,751	35,262
CHANGE IN NET POSITION					754,661	628,309	1,382,970	177,544
NET POSITION - BEGINNING					9,833,227	20,825,442	30,658,669	2,219,721
PRIOR PERIOD ADJUSTMENT					(218,729)	(126,697)	(345,426)	-
NET POSITION - ENDING					\$ 10,369,159	\$ 21,327,054	\$ 31,696,213	\$ 2,397,265

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

BOROUGH OF KUTZTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2018

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>OTHER FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,804,175	\$ 370,066	\$ 106,413	\$ 2,280,654
Taxes Receivable	5,146	3,982	-	9,128
Prepaid Expenses	30,092	-	-	30,092
Unamortized Bond Issuance Costs	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Component Units KMA & KTA	-	-	-	-
TOTAL ASSETS	<u>\$ 1,839,413</u>	<u>\$ 374,048</u>	<u>\$ 106,413</u>	<u>\$ 2,319,874</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ 40,702	\$ -	\$ -	\$ 40,702
Due to Component Units	17,362	-	-	17,362
Customer Deposits	-	-	-	-
Accounts Payable	88,034	-	-	88,034
Accrued Salaries and Benefits	89,176	-	-	89,176
Interest Payable	2,595	-	-	2,595
TOTAL LIABILITIES	<u>237,869</u>	<u>-</u>	<u>-</u>	<u>237,869</u>
<u>FUND BALANCES:</u>				
- Nonspendable	-	-	-	-
- Restricted	-	374,048	106,413	480,461
- Committed	-	-	-	-
- Assigned	-	-	-	-
- Unassigned	1,601,544	-	-	1,601,544
TOTAL FUND BALANCES	<u>1,601,544</u>	<u>374,048</u>	<u>106,413</u>	<u>2,082,005</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,839,413</u>	<u>\$ 374,048</u>	<u>\$ 106,413</u>	<u>\$ 2,319,874</u>

Reconciliation to Statement of Net Assets:

Amounts recorded for governmental activities in the statement of net assets are the same as the amounts recorded in all governmental funds, since both financial statements are prepared on the modified cash basis of accounting.

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, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 2,082,005**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$17,896,446 and the accumulated depreciation is \$8,934,620 8,961,826

Pension assets and related deferred outflows are not financial resources and , therefore, are not reported as assets in the governmental funds. 1,469,270

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	\$	(330,000)	
GASB 68 Liability		(1,425,041)	
Other Retirement Benefits		<u>(388,901)</u>	<u>(2,143,942)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 10,369,159**

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, 2018

	GENERAL	SPECIAL REVENUE	OTHER FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 1,077,746	\$ 352,699	\$ -	\$ 1,430,445
Licenses and Permits	175,339	-	-	175,339
Fines and Forfeits	135,767	-	-	135,767
Intergovernmental	364,842	152,689	-	517,531
Charges for Services	212,429	-	-	212,429
Miscellaneous	35,285	-	-	35,285
Reimbursements	231,632	-	-	231,632
Investment and Rental Earnings	427,078	8,005	1,704	436,787
TOTAL REVENUES	<u>2,660,118</u>	<u>513,393</u>	<u>1,704</u>	<u>3,175,215</u>
EXPENDITURES				
CURRENT:				
General Government	490,817	-	-	490,817
Public Safety	2,591,258	782	-	2,592,040
Public Works	1,128,509	3,132	-	1,131,641
Culture and Recreation	617,740	1,330	-	619,070
Community Development	-	-	-	-
Non-Departmental	61,250	-	-	61,250
DEBT SERVICE:				
Principal	135,000	-	-	135,000
Interest	7,744	-	-	7,744
TOTAL EXPENDITURES	<u>5,032,318</u>	<u>5,244</u>	<u>-</u>	<u>5,037,562</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,372,200)</u>	<u>508,149</u>	<u>1,704</u>	<u>(1,862,347)</u>
OTHER FINANCING SOURCES				
Refund of Prior Year Expenditures	132,830	-	-	132,830
Sale of Fixed Assets	-	-	-	-
Interfund Transfers In	2,574,730	-	-	2,574,730
Interfund Transfers Out	(40,162)	(456,145)	-	(496,307)
TOTAL OTHER FINANCING SOURCES	<u>2,667,398</u>	<u>(456,145)</u>	<u>-</u>	<u>2,211,253</u>
NET CHANGE IN FUND BALANCES	295,198	52,004	1,704	348,906
FUND BALANCES - BEGINNING	1,306,346	322,044	104,709	1,733,099
PRIOR PERIOD ADJUSTMENT	-	-	-	-
FUND BALANCES - ENDING	<u>\$ 1,601,544</u>	<u>\$ 374,048</u>	<u>\$ 106,413</u>	<u>\$ 2,082,005</u>

Reconciliation to Statement of Net Assets:

Amounts recorded for governmental activities in the statement of activities are the same as the amounts recorded in the statement of revenues, expenditures, and changes in fund balances of all governmental funds, since both statements are prepared on the modified cash basis of accounting.

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, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 348,906**

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	\$ (415,340)	
Asset Deletions	-	
Capital Outlays	<u>511,901</u>	96,561

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.

174,194

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.

135,000

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 754,661**

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, 2018

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,466,853	\$ 641,459	\$ 1,159,979	\$ 120,544	\$ 722,258	\$ 5,111,093
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	685,937	178,901	189,882	55,911	87,960	1,198,591
Prepaid Expenses	14,406	12,834	22,085	11,082	2,937	63,344
Due from Other Funds	30,436	731	520	8,069	946	40,702
TOTAL CURRENT ASSETS	3,197,632	833,925	1,372,466	195,606	814,101	6,413,730
NON-CURRENT ASSETS:						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	790,909	5,572,244	5,743,719	62,700	107,014	12,276,586
Machinery and Equipment/Infrastructure (Net of Depreciation)	1,183,802	6,129,854	10,166,534	2,327,041	437,650	20,244,881
Unamortized Bond Costs	25,873	307,446	137,879	12,743	-	483,941
TOTAL NON-CURRENT ASSETS	2,000,584	12,486,951	16,861,424	2,403,906	544,664	34,297,529
TOTAL ASSETS	\$ 5,198,216	\$ 13,320,876	\$ 18,233,890	\$ 2,599,512	\$ 1,358,765	\$ 40,711,259
DEFERRED OUTFLOWS OF RESOURCES						
	\$ 168,205	\$ 119,470	\$ 111,825	\$ 93,723	\$ 71,069	\$ 564,292
LIABILITIES						
CURRENT LIABILITIES:						
Accounts Payable	\$ 472,314	\$ 18,769	\$ 33,926	\$ 8,427	\$ 11,784	\$ 545,220
Accrued Salaries and Benefits	24,668	18,086	15,306	12,851	10,480	81,391
Sales Tax Payable	8,958	-	-	-	-	8,958
Customer Deposits	149,900	-	-	-	-	149,900
Interest Payable	10,510	86,174	57,716	823	-	155,223
Bonds Payable	155,000	400,000	435,000	150,000	-	1,140,000
TOTAL CURRENT LIABILITIES	821,350	523,029	541,948	172,101	22,264	2,080,692
NON-CURRENT LIABILITIES:						
Other Post Employment Benefits	96,253	74,177	63,991	53,632	40,669	328,722
Net Pension Liability	210,253	162,027	139,778	117,152	88,836	718,046
Bonds Payable	1,665,000	8,160,000	6,340,000	-	-	16,165,000
TOTAL NON-CURRENT LIABILITIES	1,971,506	8,396,204	6,543,769	170,784	129,505	17,211,768
TOTAL LIABILITIES	2,792,856	8,919,233	7,085,717	342,885	151,769	19,292,460
DEFERRED INFLOWS OF RESOURCES						
	\$ 192,096	\$ 148,035	\$ 127,707	\$ 107,035	\$ 81,164	\$ 656,037
NET POSITION						
Invested in Capital Assets, Net of Related Debt	154,711	3,619,505	9,948,545	2,241,163	544,664	16,508,588
Restricted	-	-	-	-	-	-
Unrestricted Net Position	2,226,758	753,573	1,183,746	2,152	652,237	4,818,466
TOTAL NET POSITION	\$ 2,381,469	\$ 4,373,078	\$ 11,132,291	\$ 2,243,315	\$ 1,196,901	\$ 21,327,054

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, 2018

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 6,663,517	\$ 1,998,130	\$ 1,967,089	\$ 841,519	\$ 879,728	\$ 12,349,983
Penalties	45,734	10,417	9,982	74,823	6,852	147,808
Other Fees	-	14,787	34,998	-	-	49,785
Rental Income	94,986	-	-	-	-	94,986
Other Income	102,238	91,129	133,234	119,100	112,505	558,206
SCADA and Equipment Lease	-	-	-	132,420	-	132,420
TOTAL OPERATING REVENUES	6,906,475	2,114,463	2,145,303	1,167,862	999,085	13,333,188
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	3,319,542	588,759	551,575	640,324	374,295	5,474,495
Employee Wages	513,687	402,513	341,505	286,225	217,042	1,760,972
Employee Benefits	232,362	204,309	170,482	125,629	99,970	832,752
Employee Pension	69,624	54,343	47,150	38,390	29,958	239,465
Insurance	89,437	141,876	117,204	28,882	19,177	396,576
Debt Service	80,478	267,808	168,106	8,643	-	525,035
Depreciation	150,843	401,929	514,224	319,838	86,876	1,473,710
TOTAL OPERATING EXPENSES	4,455,973	2,061,537	1,910,246	1,447,931	827,318	10,703,005
OPERATING INCOME (LOSS)	2,450,502	52,926	235,057	(280,069)	171,767	2,630,183
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	40,474	6,963	12,210	641	7,219	67,507
State Grants	-	-	-	-	9,042	9,042
Transfers from Other Funds	32,512	7,705	6,801	271,325	1,250	319,593
Transfers to Other Funds	(2,359,073)	(8,782)	(4,797)	(5,206)	(20,158)	(2,398,016)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,286,087)	5,886	14,214	266,760	(2,647)	(2,001,874)
CHANGES IN NET POSITION	164,415	58,812	249,271	(13,309)	169,120	628,309
NET POSITION, JANUARY 1, 2018	2,259,866	4,346,737	10,903,845	2,274,125	1,040,869	20,825,442
PRIOR PERIOD ADJUSTMENT	(42,812)	(32,471)	(20,825)	(17,501)	(13,088)	(126,697)
NET POSITION, DECEMBER 31, 2018	\$ 2,381,469	\$ 4,373,078	\$ 11,132,291	\$ 2,243,315	\$ 1,196,901	\$ 21,327,054

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

BOROUGH OF KUTZTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2018

	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Cash Received from Users	\$ 6,756,151	\$ 1,986,957	\$ 1,943,327	\$ 956,835	\$ 891,653	\$ 12,534,923
Cash Received from Other Operating Revenue	197,224	105,916	168,232	251,520	112,505	835,397
Cash Payments to Employees for Services	(866,477)	(694,904)	(645,355)	(521,383)	(400,364)	(9,614,171)
Cash Payments to Suppliers for Goods and Services	(3,397,791)	(596,058)	(563,808)	(674,826)	(375,950)	(5,608,433)
Cash Payments to Other Operating Expenses	<u>(167,957)</u>	<u>(403,337)</u>	<u>(284,684)</u>	<u>(36,578)</u>	<u>(17,686)</u>	<u>(910,242)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,521,150	398,574	617,712	(24,432)	210,158	3,723,162
	-----	-----	-----	-----	-----	-----
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>						
(Increase) Decrease in Due from Other Funds	(30,436)	(731)	(520)	(8,069)	(946)	(40,702)
Increase (Decrease) in Due to Other Funds	-	-	-	-	-	-
State Grants	-	-	-	-	9,042	9,042
Operating Transfers In	32,512	7,705	6,801	271,325	1,250	319,593
Operating Transfers Out	<u>(2,359,073)</u>	<u>(8,782)</u>	<u>(4,797)</u>	<u>(5,206)</u>	<u>(20,158)</u>	<u>(2,398,016)</u>
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(2,356,997)	(1,808)	1,484	258,050	(10,812)	(2,110,083)
	-----	-----	-----	-----	-----	-----
<u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u>						
Loan Principal Payments/Proceeds	(150,000)	(395,000)	(330,000)	(150,000)	-	(1,025,000)
Purchase of Fixed Assets	(26,726)	-	(39,319)	-	-	(66,045)
Sale of Fixed Assets	-	-	-	-	-	-
Interest Paid on Long-Term Borrowings	-	-	-	-	-	-
(Increase) Decrease in Unamortized Bond Costs	<u>1,990</u>	<u>33,507</u>	<u>10,606</u>	<u>981</u>	<u>-</u>	<u>47,084</u>
NET CASH (USED) FOR CAPITAL FINANCING ACTIVITIES	(174,736)	(361,493)	(358,713)	(149,019)	-	(1,043,961)
	-----	-----	-----	-----	-----	-----
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Earnings on Investments	<u>40,474</u>	<u>6,963</u>	<u>12,210</u>	<u>641</u>	<u>7,219</u>	<u>67,507</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	40,474	6,963	12,210	641	7,219	67,507
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,891	42,236	272,693	85,240	206,565	636,625
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,436,962	599,223	887,286	35,304	515,693	4,474,468
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,466,853</u>	<u>\$ 641,459</u>	<u>\$ 1,159,979</u>	<u>\$ 120,544</u>	<u>\$ 722,258</u>	<u>\$ 5,111,093</u>

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

BOROUGH OF KUTZTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2018

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)	\$ 2,450,502	\$ 52,926	\$ 235,057	\$ (280,069)	\$ 171,767	\$ 2,630,183
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Depreciation	150,843	401,929	514,224	319,838	86,876	1,473,710
CHANGE IN ASSETS AND LIABILITIES:						
(Increase) Decrease in Accounts Receivable	42,316	(21,590)	(33,744)	43,937	5,073	35,992
(Increase) Decrease in Prepaid Expenses	2,363	2,032	1,983	1,694	1,491	9,563
(Increase) Decrease in Deferred Outflows	(29,652)	(11,187)	3,699	3,068	2,486	(31,586)
Increase (Decrease) in Accounts Payable	(78,249)	(7,299)	(12,233)	(34,502)	(1,655)	(133,938)
Increase (Decrease) in Accrued Salaries and Benefits	2,649	496	(689)	512	1,145	4,113
Increase (Decrease) in Sales Tax Payable	(616)	-	-	(44)	-	(660)
Increase (Decrease) in Interest Payable	(405)	4,315	(1,357)	(747)	-	1,806
Increase (Decrease) in GASB 68 Pension and OPEB Liability	(213,115)	(168,908)	(214,615)	(179,810)	(136,712)	(913,160)
Increase (Decrease) in Deferred Inflows	189,314	145,860	125,387	105,091	79,687	645,339
Increase (Decrease) in Customer Deposits	5,200	-	-	(3,400)	-	1,800
TOTAL ADJUSTMENTS	70,648	345,648	382,655	255,637	38,391	1,092,979
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,521,150	\$ 398,574	\$ 617,712	\$ (24,432)	\$ 210,158	\$ 3,723,162

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

BOROUGH OF KUTZTOWN
Statement of Net Position
Fiduciary Funds
As of December 31, 2018

	POLICE PENSION TRUST FUNDS
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 266,190
Investments, at Fair Value	<u>5,121,127</u>
TOTAL ASSETS	<u>\$ 5,387,317</u>
 DEFERRED OUTFLOWS OF RESOURCES	 \$ -
<u>LIABILITIES</u>	
Pension Taxes Payable	\$ -
TOTAL LIABILITIES	<u>\$ -</u>
 DEFERRED INFLOWS OF RESOURCES	 \$ -
 <u>NET POSITION</u>	
Restricted for Employee Benefits	<u>5,387,317</u>
TOTAL NET POSITION	<u>\$ 5,387,317</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, 2018

	POLICE PENSION TRUST FUNDS
ADDITIONS:	
State Aid	\$ 84,887
Employee Contributions	54,089
Miscellaneous	-
INVESTMENT EARNINGS:	
Interest and Dividends	122,666
Realized Gains (Losses)	238,284
Change in Fair Value of Investments	(586,250)
TOTAL ADDITIONS	<u>(86,324)</u>
 DEDUCTIONS:	
Administrative Charges	10,156
Investment Expenses	61,157
Employee Benefits	212,504
TOTAL DEDUCTIONS	<u>283,817</u>
 CHANGES IN NET POSITION	 (370,141)
 NET POSITION - BEGINNING OF YEAR	 <u>5,757,458</u>
 NET POSITION - END OF YEAR	 <u><u>\$ 5,387,317</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, 2018

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 998,900	\$ 998,900	\$ 1,077,746	\$ 78,846	\$ -	\$ 1,077,746
Licenses and Permits	189,900	189,900	175,339	(14,561)	-	175,339
Fines and Forfeits	156,000	156,000	135,767	(20,233)	-	135,767
Intergovernmental	318,150	318,150	364,842	46,692	-	364,842
Charges for Services	215,900	215,900	212,429	(3,471)	-	212,429
Miscellaneous	30,500	30,500	35,285	4,785	-	35,285
Reimbursements	200,301	200,301	231,632	31,331	-	231,632
Investment and Rental Earnings	402,600	402,600	427,078	24,478	-	427,078
Refund of Prior Year Expenditures	100	100	132,830	132,730	-	132,830
Transfers from Other Funds	2,534,894	2,534,894	2,574,730	39,836	-	2,574,730
TOTAL RESOURCES	5,047,245	5,047,245	5,367,678	320,433	-	5,367,678
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	9,000	9,000	17,553	(8,553)	-	17,553
Mayor, Legislative, Borough Manager	434,132	434,132	322,680	111,452	-	322,680
Finance and Accounting	28,634	28,634	29,811	(1,177)	-	29,811
Tax Collection	7,319	7,319	2,762	4,557	-	2,762
Engineering	500	500	1,502	(1,002)	-	1,502
Buildings and Plant	118,258	118,258	116,509	1,749	-	116,509
Public Safety						
Police	2,039,045	2,039,045	2,075,916	(36,871)	-	2,075,916
Fire and Ambulance	64,194	64,194	154,788	(90,594)	-	154,788
Inspections & Permits	379,734	379,734	359,725	20,009	-	359,725
Emergency Management	3,400	3,400	829	2,571	-	829
Public Works						
Street Maintenance and Lighting	932,256	932,256	1,128,509	(196,253)	-	1,128,509
Culture and Recreation						
Parks and Pool	812,173	812,173	617,740	194,433	-	617,740
Non-Departmental						
Debt Service	143,500	143,500	142,744	756	-	142,744
Miscellaneous	75,100	75,100	61,250	13,850	-	61,250
Transfer to Other Funds	-	-	40,162	(40,162)	-	40,162
TOTAL CHARGES TO APPROPRIATIONS	5,047,245	5,047,245	5,072,480	(25,235)	-	5,072,480
Excess (Deficiency) of Inflows Over Outflows	-	-	295,198	295,198	-	295,198
FUND BALANCE - JANUARY 1, 2018	-	-	1,306,346	1,306,346	-	1,306,346
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-
FUND BALANCE - DECEMBER 31, 2018	\$ -	\$ -	\$ 1,601,544	\$ 1,601,544	\$ -	\$ 1,601,544

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 1 – Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Components Units

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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

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

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

B. Basis of Accounting

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

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

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

C. Fund Accounting

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

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

General Fund

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

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

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

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

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

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

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

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

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

D. Measurement Focus

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

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

E. Budgets and Budgetary Accounting

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

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Refuse Fund, Water Fund, Electric Fund, Sewer Fund, Telecommunications Fund and Highway Aid Fund. All annual appropriations lapse at fiscal year-end. Budgets are shown in the supplemental information.
2. During November and December, the Borough holds budget hearings for the purposes of receiving oral and written comment from interested parties in regard to the proposed budget for the following year. The Borough makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them. The board holds public hearings and a final budget must be prepared and adopted no later than December 31 through the passage of an ordinance. All budget revisions require the approval of the Borough Council. There were no budget revisions made during the year. Depreciation expense is not included in the budget.
3. For the year, expenditures and other uses exceeded appropriations in the general, waste, and telecommunication funds. Expenditures exceeded revenues in the general, highway aid and sewer funds. Adequate fund balance surpluses exist in the above funds to cover budget or operating deficits.

Encumbrances

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

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

F. Use of Estimates

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

G. Assets, Liabilities and Net Assets

Cash and Cash Equivalents

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

Investments

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

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

Receivables and Payables

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

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

Inventories

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

Real Estate Taxes

The total taxable assessed real estate valuation for the year ended 2018 is \$193,739,600 at a rate of 4.1 mills. Real estate taxes are levied on March 1 and are payable by June 30.

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

Fund Balance Classifications

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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

Capital Assets

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

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

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

Assets	Years
Building and Plants	50
Recreation Structures	25
Roads and Bridges	40
Utility Distribution and Collection Systems	50
Lighting and Traffic Control Devices	15
Trucks and Heavy Equipment	10
Vehicles	7

Deferred Outflows/Inflows of Resources

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

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

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

Net Assets

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

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

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

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

The governmental fund balance sheet includes a reconciliation between “fund balance-total governmental funds” and “net assets – governmental activities” as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in government activities are not financial resources and therefore are not reported as assets in governmental funds”. The cost of the capital assets net of depreciation totals \$8,961,826. The difference of \$174,194 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.

BOROUGH OF KUTZTOWN
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- b) Capital related differences include: (1) the differences between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities; and, (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

	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	\$ 793,402	\$ -	\$ -	\$ -	\$ 793,402
Other Taxes Levied for General Purposes	638,534	-	-	-	638,534
Grants, Subsidies & Contributions	13,292	-	-	-	13,292
Investment and Rental Earnings	436,787	-	-	-	436,787
Miscellaneous	21,993	-	-	-	21,993
Charges for Services	755,167	-	-	-	755,167
Refund of Prior Years Expense	132,830	-	-	-	132,830
Transfers In	2,574,730	-	-	-	2,574,730
STATE SOURCES:					
Operating Grants and Contributions	516,040	-	-	-	516,040
FEDERAL SOURCES:					
Operating Grants and Contributions	-	-	-	-	-
TOTAL REVENUES	5,882,775	-	-	-	5,882,775
EXPENDITURES/EXPENSES AND OTHER USES					
General Government	490,817	(14,614)	(18,750)	-	457,453
Public Safety	2,592,040	(90,216)	(42,476)	-	2,459,348
Public Works	1,131,641	(41,371)	(450,675)	-	639,595
Culture and Recreation	619,070	(27,993)	-	-	591,077
Community Development	-	-	-	-	-
Non-Departmental	61,250	-	-	-	61,250
Debt Service Payments	142,744	-	-	(135,000)	7,744
Depreciation	-	-	415,340	-	415,340
Transfers Out	496,307	-	-	-	496,307
TOTAL EXPENDITURES/EXPENSES	5,533,869	(174,194)	(96,561)	(135,000)	5,128,114
NET CHANGE FOR THE YEAR	\$ 348,906	\$ 174,194	\$ 96,561	\$ 135,000	\$ 754,661

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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, 2018, \$4,059,232 of the Borough's bank balance of \$4,559,232 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	4,059,232
TOTAL	\$ 4,059,232

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 4,059,232
Plus: Insured Amount	500,000
Deposit in Transit	34,454
Less: Outstanding Checks	(32,951)
Carrying Amount - Bank Balances	4,560,735
Plus: Petty Cash	900
Deposits in Investment Pool Considered Cash Equivalents	3,096,302
Deposits in Money Market Mutual Funds Considered Cash Equivalent	-
TOTAL CASH PER FINANCIAL STATEMENTS	\$ 7,657,937

Restricted Cash

The cash balance includes \$266,190 held for pension benefits.

Note 5 - Investments

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

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

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

Pension Trust Funds

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

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

The fund will 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.

As of December 31, 2018, the Borough had the following investments:

<i>Investments</i>	<i>Maturities</i>	<i>Fair Value</i>
PA Local Government Investment Trust/PA Invest Pool		\$ 3,096,302
Municipal Bond	10 mos - 29 years	867,410
U.S. Government Agency Bonds	3 years 6 mos - 22 years 2 mos	255,785
Corporate Bonds	1 year 5 mos - 16 years 1 mo	94,912
Common Stocks		2,502,262
ETF's and CEF's		1,400,758
TOTAL		\$ 8,217,429

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 unobservable 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, 2018, the Borough's significant investments were rated as:

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

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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 48.86%, 27.35%, 16.94%, 1.85%, and 5.00%, respectively represent the Police Pension Trust Funds investments.

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	\$ 8,217,429
Less: Deposits in Investment Pool Considered Cash Equivalents	(3,096,302)
Total Investments Per Financial Statements	<u>\$ 5,121,127</u>

Restricted Investments

The investments include \$5,121,127 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	\$ 5,146	\$ 3,982	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,128
Accounts	-	-	685,937	178,901	189,882	55,911	87,960	81,699	1,280,290
Intergovernmental	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Gross Receivables	5,146	3,982	685,937	178,901	189,882	55,911	87,960	81,699	1,289,418
Less: Allowance for Uncollectibles	-	-	-	-	-	-	-	-	-
Net Receivables	<u>\$ 5,146</u>	<u>\$ 3,982</u>	<u>\$ 685,937</u>	<u>\$ 178,901</u>	<u>\$ 189,882</u>	<u>\$ 55,911</u>	<u>\$ 87,960</u>	<u>\$ 81,699</u>	<u>\$ 1,289,418</u>

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2018, were:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,170,478	\$ 164,390	\$ -	\$ 1,334,868
Construction in Progress	-	-	-	-
Total Capital Assets not being depreciated	1,170,478	164,390	-	1,334,868
Capital Assets being Depreciated:				
Buildings	2,343,172	-	(198,600)	2,144,572
Machinery, Equipment and Vehicles	1,657,405	42,476	-	1,699,881
Infrastructure	12,266,450	450,675	-	12,717,125
Total Capital Assets being depreciated	16,267,027	493,151	(198,600)	16,561,578
Less: Accumulated Depreciation for:				
Buildings	(1,361,922)	(67,320)	52,960	(1,376,282)
Machinery, Equipment and Vehicles	(1,464,164)	(57,471)	-	(1,521,635)
Infrastructure	(5,746,154)	(290,549)	-	(6,036,703)
Total Accumulated Depreciation	(8,572,240)	(415,340)	52,960	(8,934,620)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	7,694,787	77,811	(145,640)	7,626,958
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 8,865,265	\$ 77,811	\$ (145,640)	\$ 8,961,826
Business-Type Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,292,121	\$ -	\$ -	\$ 1,292,121
Construction in Progress	172,995	-	(172,995)	-
Total Capital Assets not being depreciated	1,465,116	-	(172,995)	1,292,121
Capital Assets being Depreciated:				
Buildings	1,767,271	-	-	1,767,271
Machinery, Equipment and Vehicles	46,340,691	26,726	-	46,367,417
Infrastructure	12,659,234	212,314	-	12,871,548
Total Capital Assets being depreciated	60,767,196	239,040	-	61,006,236
Less: Accumulated Depreciation for:				
Buildings	(721,723)	(40,892)	-	(762,615)
Machinery, Equipment and Vehicles	(24,960,775)	(1,161,759)	-	(26,122,534)
Infrastructure	(1,328,561)	(271,059)	-	(1,599,620)
Total Accumulated Depreciation	(27,011,059)	(1,473,710)	-	(28,484,769)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	33,756,137	(1,234,670)	-	32,521,467
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	\$ 35,221,253	\$ (1,234,670)	\$ (172,995)	\$ 33,813,588

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated **\$ 415,340**

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

Depreciation – Unallocated **\$1,473,710**

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 8 – Interfund Transactions

The Borough had the following interfund payables and receivables as of December 31, 2018:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 40,702
Fire Protection Tax Fund (Special Revenue)	-	-
Recreation Tax Fund (Special Revenue)	-	-
Road Tax Fund (Special Revenue)	-	-
Refuse Fund (Enterprise)	946	-
Water Fund (Enterprise)	731	-
Electric Fund (Enterprise)	30,436	-
Sewer Fund (Enterprise)	520	-
Telecom Fund (Enterprise)	8,069	-
TOTAL	<u>\$ 40,702</u>	<u>\$ 40,702</u>

The Borough also made the following interfund transfers during the year ended December 31, 2018.

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 2,574,730	\$ 40,162
Fire Protection Tax Fund (Special Revenue)	-	60,001
Recreation Tax Fund (Special Revenue)	-	84,447
Road Tax Fund (Special Revenue)	-	204,960
Highway Aid Fund (Special Revenue)	-	106,737
Refuse Fund (Enterprise)	1,250	20,158
Water Fund (Enterprise)	7,705	8,782
Electric Fund (Enterprise)	32,512	2,359,073
Sewer Fund (Enterprise)	6,801	4,797
Telecom Fund (Enterprise)	271,325	5,206
TOTAL	<u>\$ 2,894,323</u>	<u>\$ 2,894,323</u>

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2018, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Yr
Governmental Activities:					
Bonds Payable					
Capital Projects	\$ 465,000	\$ -	\$ 135,000	\$ 330,000	\$ 80,000
Total Governmental Activities					
LONG-TERM LIABILITIES	\$ 465,000	\$ -	\$ 135,000	\$ 330,000	\$ 80,000
Business-Type Activities					
Bonds Payable					
Capital Projects	\$ 18,330,000	\$ -	\$ 1,025,000	\$ 17,305,000	\$ 1,140,000
Total Business-Type Activities					
LONG-TERM LIABILITIES	\$ 18,330,000	\$ -	\$ 1,025,000	\$ 17,305,000	\$ 1,140,000

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		\$ 7,744
Total Interest Paid By Governmental Activities		\$ 7,744
Business-Type Activities		Paid
General Obligation Bonds		\$ 477,952
Total Interest Paid by Business-Type Activities		\$ 477,952

The total interest cost incurred and charged to expense in 2018 was \$485,696.

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Long-Term Debt

At December 31, 2018, 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.	\$ 1,765,000
General Obligation Bonds, Series of 2016, M&T Bank, Initial issue \$6,565,000 interest rates from 1.00% to 2.800% per annum until August, 2032.	6,320,000
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.	2,110,000
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.	2,435,000
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.	5,005,000
TOTAL	\$ 17,635,000

At December 31, 2018, the division of debt between the governmental and business-type activities was as follows:

Governmental	\$ 330,000
Business-Type	17,305,000
TOTAL	\$ 17,635,000

The following summarizes debt activity for the Borough for 2018:

	Outstanding January 1, 2018	Issued	Retired	Outstanding December 31, 2018	Due in One Year
General Obligation Bonds 2013A	\$ 2,010,000	\$ -	\$ 245,000	\$ 1,765,000	\$ 250,000
General Obligation Bonds 2016	6,560,000	-	240,000	6,320,000	345,000
General Obligation Bonds 2016A	2,575,000	-	465,000	2,110,000	415,000
General Obligation Bonds 2017	2,435,000	-	-	2,435,000	-
General Obligation Bonds 2017A	5,215,000	-	210,000	5,005,000	210,000
TOTAL	\$ 18,795,000	\$ -	\$ 1,160,000	\$ 17,635,000	\$ 1,220,000

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Aggregate maturities required on debt at December 31, 2018 are as follows:

Fiscal Year	Principal	Interest
2019	\$ 1,220,000	\$ 473,767
2020	1,095,000	445,282
2021	1,115,000	420,333
2022	1,055,000	394,444
2023	1,060,000	369,300
2024-2028	5,720,000	1,450,291
2029-2033	5,100,000	659,157
2034-2037	1,270,000	112,875
TOTAL	\$ 17,635,000	\$ 4,325,449

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, 2018

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 2017	GOB Series 2017A	Total Payments
2019	\$ 250,000	\$ 345,000	\$ 415,000	\$ -	\$ 210,000	\$ 1,220,000
2020	100,000	350,000	425,000	-	220,000	1,095,000
2021	105,000	360,000	430,000	-	220,000	1,115,000
2022	110,000	370,000	330,000	20,000	225,000	1,055,000
2023	110,000	375,000	300,000	40,000	235,000	1,060,000
2024-2028	630,000	2,480,000	210,000	1,150,000	1,250,000	5,720,000
2029-2032	460,000	2,040,000	-	1,225,000	1,375,000	5,100,000
2033-2037	-	-	-	-	1,270,000	1,270,000
TOTAL	\$ 1,765,000	\$ 6,320,000	\$ 2,110,000	\$ 2,435,000	\$ 5,005,000	\$ 17,635,000
Less: Payable Within One Year	250,000	345,000	415,000	-	210,000	1,220,000
Long-Term Debt Outstanding	\$ 1,515,000	\$ 5,975,000	\$ 1,695,000	\$ 2,435,000	\$ 4,795,000	\$ 16,415,000

Principal and Interest Requirements Fiscal Year	GOB Series 2013A	GOB Series 2016	GOB Series 2016A	GOB Series 2017	GOB Series 2017A	Total Payments
2019	\$ 325,800	\$ 490,959	\$ 457,200	\$ 68,667	\$ 351,141	\$ 1,693,767
2020	168,437	489,059	458,900	68,667	355,219	1,540,282
2021	170,192	492,059	455,400	68,667	349,015	1,535,333
2022	171,307	494,859	346,800	88,667	347,811	1,449,444
2023	167,072	492,459	310,200	108,103	351,466	1,429,300
2024-2028	835,735	2,926,605	214,200	1,444,383	1,749,368	7,170,291
2029-2033	506,395	2,172,737	-	1,334,900	1,745,125	5,759,157
2034-2037	-	-	-	-	1,382,875	1,382,875
TOTAL	\$ 2,344,938	\$ 7,558,737	\$ 2,242,700	\$ 3,182,054	\$ 6,632,020	\$ 21,960,449

Comprised of the following Fund Allocations	GOB Series 2013A	GOB Series 2016	GOB Series 2016A	GOB Series 2017	GOB Series 2017A	Total Payments	Less Payable in One Year	Long-Term Debt
General Fund	\$ -	\$ -	\$ 285,000	\$ 45,000	\$ -	\$ 330,000	\$ 80,000	\$ 250,000
Water Fund	-	-	1,205,000	2,350,000	5,005,000	8,560,000	400,000	8,160,000
Electric Fund	1,615,000	-	165,000	40,000	-	1,820,000	155,000	1,665,000
Sewer Fund	-	6,320,000	455,000	-	-	6,775,000	435,000	6,340,000
Telecommunication Fund	150,000	-	-	-	-	150,000	150,000	-
TOTALS	\$ 1,765,000	\$ 6,320,000	\$ 2,110,000	\$ 2,435,000	\$ 5,005,000	\$ 17,635,000	\$ 1,220,000	\$ 16,415,000

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 10 – Prior Period Adjustment

During the current year, the Borough implemented GASB-75 related to existing OPEB Liabilities. As a result, the Borough had to record the opening OPEB Liability and Deferred Inflows/Outflows resulting in the following changes in Net Position:

	<u>Increase/(Decrease)</u> <u>Net Position</u>
General Fund	\$ (218,729)
Electric Fund	(42,812)
Water Fund	(32,471)
Sewer Fund	(20,825)
Telecom Fund	(17,501)
Refuse Fund	(13,088)

Note 11 - 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

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

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

BOROUGH OF KUTZTOWN
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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:

	1/1/2017
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 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 \$330,960.

Net Pension Liability

The net pension liability for December 31, 2018 was measured as of December 31, 2017, and the total pension liability was measured as of December 31, 2017 based on the actuarial valuation one year prior 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 2017 is based upon the January 1, 2015 actuarial valuation.

A summary of the key assumptions and methods used to determine the 2017 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

BOROUGH OF KUTZTOWN
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Year Ended December 31, 2018

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 are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. There are four (4) 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 historical returns. These nominal rates of return future assume that investment expenses will be offset by the additional return performance derived from active investment management.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to product real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the in the chart below labeled "System Nominal and Real Rates of Return by Asset Class:"
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the Board has been determined to be 70%. The chart below labeled "Confidence Levels for System Nominal and Real Rates of Return" identified simulated portfolio returns at various confidence levels.

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%

BOROUGH OF KUTZTOWN
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Confidence Levels for System Nominal and Real Rates of Return

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95%	3.5%	0.5%
90%	4.4%	1.4%
85%	5.1%	2.1%
80%	5.7%	2.7%
75%	6.1%	3.1%
70%	6.5%	3.5%
50%	7.9%	4.9%

Based on the four part analysis, the Board established the System's Long-Term Expected Rate of Return at 7.3%.

In addition to determining the System's Long-Term Expected Rate of Return, PMRS also develops a Long-Term Expected Rate of Return for individual participating municipalities. The Long-Term Expected Rate of Return for individual participating municipalities is also referred to as the Regular Interest Rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the Board is obligated to apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the Long-Term Expected Rate of Return for individual participating municipalities is equal to the Regular Interest Rate. 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, 2017, this rate is equal to 5.25%.

The System's policy in regards to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

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 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,

BOROUGH OF KUTZTOWN
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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, 2017.

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
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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 12/31/2016	\$ 13,070,446	\$ 10,685,542	\$ 2,384,904
Adjustments	-	-	-
Changes for the year:			
Service Cost	303,765	-	303,765
Interest	683,899	-	683,899
Changes in Benefits	-	-	-
Changes of Assumptions	-	-	-
Differences between expected and actual experience	-	-	-
Employer Contributions	-	324,658	(324,658)
PMRS Assesment Contributions	-	1,680	(1,680)
Employee Contributions	-	149,420	(149,420)
PMRS Investment Income	-	580,709	(580,709)
Market Value Investment Income	-	1,293,827	(1,293,827)
Benefit Payments	(704,131)	(704,131)	-
PMRS Administration Expenses	-	(1,620)	1,620
Additional Administration Expenses	-	(26,706)	26,706
Net Changes	283,533	1,617,837	(1,334,304)
Balances at 12/31/2017	<u>\$ 13,353,979</u>	<u>\$ 12,303,379</u>	<u>\$ 1,050,600</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	\$ 14,924,678	\$ 13,353,979	\$ 12,024,949
Plan Fiduciary Net Position	12,303,379	12,303,379	12,303,379
Net Pension Liability	\$ 2,621,299	\$ 1,050,600	\$ (278,430)
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	82.44%	92.13%	102.32%

BOROUGH OF KUTZTOWN
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Components of Pension Expense for Year Ended December 31, 2018 (Measurement Year Ending 12/31/17)

Service Cost	\$ 303,765
Interest on the Total Pension Liability	683,899
Differences between Expected and Actual Experience	93,502
Changes in Assumptions	56,207
Employee Contributions	(149,420)
Projected Earnings on Pension Plan Investments	(580,709)
Difference between Projected and Actual Earnings on Investments	(210,665)
Pension Plan Administrative Expense	28,326
Insurance Premiums	-
Other Changes in Net Fiduciary Position	-
Total Pension Expense	<u>\$ 224,905</u>

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2018, the actuarially determined pension expense is \$224,905. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2018:

Deferred Outflows and Inflows of Resources Related to Pension

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ 236,494	\$ 52
Changes in Actuarial Assumptions	240,121	11,469
Net Difference in Projected and Actual Earnings on Plan Investments	-	948,351
Contributions Subsequent to the Measurement Date	330,960	-
Totals	<u>\$ 807,575</u>	<u>\$ 959,872</u>

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

2018	\$ (60,957)
2019	(41,002)
2020	(207,287)
2021	(174,011)
2022	-
Thereafter	-

BOROUGH OF KUTZTOWN
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Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability	\$ (1,334,304)
Change in Deferred (Outflows) of Resources	288,361
Change in Deferred Inflows of Resources	944,510
Employer Contributions	326,338
Total Pension Expense	\$ 224,905

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.

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.

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.

BOROUGH OF KUTZTOWN
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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

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

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

BOROUGH OF KUTZTOWN
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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:

	<u>12/31/2017</u>
Inactive Members or Beneficiaries Currently Receiving Benefits	7
Inactive Members Entitled to but not yet Receiving Benefits	-
Active Plan Members	<u>11</u>
TOTAL	<u>18</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 \$84,887.

Net Pension Liability

The net pension liability for December 31, 2018 was measured as of December 31, 2017, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2016 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 expected rate of return by weighting the expected future real rates of return by the target asset

BOROUGH OF KUTZTOWN
Notes To Financial Statements
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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%	4.5% - 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 12/31/2016	\$ 4,789,911	\$ 5,034,936	\$ (245,025)
Service Cost	164,621	-	164,621
Interest	371,059	-	371,059
Changes for Experience	(225,370)	-	(225,370)
Changes for Assumptions	159,888	-	159,888
Employer Contributions	-	81,099	(81,099)
Employee Contributions	-	51,081	(51,081)
Net Investment Income	-	807,488	(807,488)
Benefit Payments, including refunds of member contributions)	(202,383)	(202,383)	-
Administration Expenses	-	(6,800)	6,800
Other Changes	-	-	-
Net Changes	267,815	730,485	(462,670)
Balances at 12/31/2017	<u>\$ 5,057,726</u>	<u>\$ 5,765,421</u>	<u>\$ (707,695)</u>

BOROUGH OF KUTZTOWN
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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	\$ (81,010)	\$ (707,695)	\$ (1,233,438)

Components of Pension Expense for Year Ended December 31, 2018 (Measurement Year Ending December 31, 2017)

Service Cost	\$ 164,621
Interest on the Total Pension Liability	371,059
Change of Benefit Terms	-
Differences between Expected and Actual Experience	(58,045)
Changes in Assumptions	9,895
Employee Contributions	(51,081)
Projected Earnings on Pension Plan Investments	(387,224)
Difference between Projected and Actual Earnings on Investments	24,900
Pension Plan Administrative Expense	6,800
Other Changes in Net Fiduciary Position	-
Total Pension Expense	\$ 80,925

Pension Expense and Deferred Outflows and inflows of Resources

For the year ended December 31, 2018, the actuarially determined pension expense is \$80,925. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ 415,881
Net Difference in Projected and Actual Earnings on Plan Investments	250,544	336,211
Changes in Actuarial Assumptions	143,899	36,560
Contributions Subsequent to the Measurement Date	84,887	-
Totals	\$ 479,330	\$ 788,652

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

2019	\$ 34,126
2020	(50,761)
2021	(50,761)
2022	(50,761)
2023	(50,761)
Thereafter	(140,404)

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Asset, Net of Other Changes	\$ (60,446)
Change in Deferred (Outflows) of Resources	34,795
Change in Deferred Inflows of Resources	(58,045)
Employer Contributions	164,621
Total Pension Expense	\$ 80,925

Note 12 – 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
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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

3.16% Based on S&P Municipal Bond 20-Year High Grade Rate Index at January 1, 2018.

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
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The resulting costs are as follows:

Age	Police		Full-time Salaried, Confidential, and Hourly Employees	
	Medical, Rx, Dental, and Vision Combined		Medical, Rx, Dental, and Vision Combined	
	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, 2018

Summary Information

Financial Information

Total OPEB Liability	\$	207,628	\$	509,995	\$	717,623
Plan Fiduciary Net Position		-		-		-
Net OPEB Liability (Asset)		207,628		509,995		717,623
Deferred Outflows of Resources		18,283		30,832		49,115
Deferred Inflows of Resources		-		-		-
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						
OPEB Expense	\$	15,664	\$	61,942	\$	77,606

Changes in the Net OPEB Liability

Total OPEB Liability	Police	Non-Uniformed Employees	Total
Fiscal Year Ending 12/31/2018			
Balance at 1/1/2017	\$ 196,038	\$ 438,767	\$ 634,805
Service Cost	7,799	42,768	50,567
Interest	7,344	17,655	24,999
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experiences	-	-	-
Changes of Assumptions	7,300	21,264	28,564
Benefit Payments	(10,853)	(10,459)	(21,312)
Other Changes	-	-	-
Net Changes	11,590	71,228	82,818
Balance at 1/1/2018	\$ 207,628	\$ 509,995	\$ 717,623

Deferred Inflows/Outflows

Deferred Outflows of Resources	Police	Non-Uniformed Employees	Total
Differences between Expected and Actual Experiences	\$ -	\$ -	\$ -
Changes of Assumptions	6,779	19,745	26,524
Benefit Payments subsequent to the Measurement Date (1/1/2018)	11,504	11,087	22,591
TOTAL DEFERRED OUTFLOWS	\$ 18,283	\$ 30,832	\$ 49,115

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Deferred Inflows of Resources	Police	Non-Uniformed Employees	Total
Differences between Expected and Actual Experiences	\$ -	\$ -	\$ -
Changes of Assumptions	-	-	-
TOTAL DEFERRED INFLOWS	\$ -	\$ -	\$ -

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 (4.16%)	\$ 197,156	\$ 474,398	\$ 671,554
Current Discount Rate (3.16%)	207,628	509,995	717,623
1% Decrease (2.16%)	218,661	547,351	766,012

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	\$ 224,236	\$ 582,286	\$ 806,522
Current Rates	207,628	509,995	717,623
1% Decrease	192,815	449,193	642,008

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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

OPEB Expense	Police	Non-Uniformed Employees	Total
Fiscal Year Ending 12/31/2018			
Service Cost	\$ 7,799	\$ 42,768	\$ 50,567
Interest on Total OPEB Liability	7,344	17,655	24,999
Changes of Benefit Terms	-	-	-
Contributions - Employee	-	-	-
Amortization of Deferred Outflows	521	1,519	2,040
Amortization of Deferred Inflows	-	-	-
Other Changes	-	-	-
TOTAL OPEB EXPENSE	\$ 15,664	\$ 61,942	\$ 77,606

Future Deferred Outflows and (Inflows) to be Recognized as OPEB Expense (Income)	Police	Non-Uniformed Employees	Total
Fiscal Year Ending			
2019	\$ 521	\$ 1,519	\$ 2,040
2020	521	1,519	2,040
2021	521	1,519	2,040
2022	521	1,519	2,040
2023	521	1,519	2,040
Thereafter	4,174	12,150	16,324

Deferred Outflows of Resources

Date	Initial Balance	Annual Recognition	Remaining Balance	Remaining Recognition Period	Type
January 1, 2018	\$ 28,564	\$ 2,040	\$ 26,524	13 Years	Assumption Change
TOTAL	28,564	2,040	26,524		

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Note 13 – GASB 61 - Condensed Component Unit Data

Condensed Statement of Net Position

	Kutztown Municipal Authority	Kutztown Transportation Authority
ASSETS:		
Cash and Cash Equivalents	\$ 1,284,033	\$ 86,390
Account Receivable	81,699	-
Due from Component Unit	17,362	
Due from Other funds	17,414	-
Capital Assets, Net of Accumulated Depreciation	1,027,609	-
TOTAL ASSETS:	2,428,117	86,390
LIABILITIES:		
Accounts Payable	99,828	-
Due to Other Funds	17,414	-
TOTAL LIABILITIES:	117,242	-
NET POSITION:		
Invested in Capital Assets, net of related Debt	1,027,609	-
Reserved for Operations	325,850	1,049
Unrestricted	957,416	85,341
TOTAL NET POSITION:	\$ 2,310,875	\$ 86,390

Condensed Statement of Activities

	Kutztown Municipal Authority	Kutztown Transportation Authority
EXPENSES:		
<i>Major Function:</i>		
Water	\$ 783,445	\$ -
Sewer	143,293	-
Transportation	-	1,931
TOTAL EXPENSES	\$ 926,738	\$ 1,931
PROGRAM REVENUES;		
<i>By Type -</i>		
Water	\$ 865,014	\$ -
Sewer	142,923	-
Grant Income	50,277	
Miscellaneous	30,025	942
Transportation	-	11,795
Interest Income	5,220	17
TOTAL REVENUES:	1,093,459	12,754
Change in Net Position	166,721	10,823
Beginning Net Position:	2,144,154	75,567
Ending Net Position:	\$ 2,310,875	\$ 86,390

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

Condensed Statement of Cash Flows

	Kutztown Municipal Authority	Kutztown Transportation Authority
NET CASH PROVIDED (USED) BY:		
Operating Activities	\$ 166,946	\$ 10,806
Non-Operating Activities	85,522	-
Investing Activities	(148,209)	17
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	104,259	10,823
Beginning Cash and Cash Equivalents	1,179,774	75,567
Ending Cash and Cash Equivalents	\$ 1,284,033	\$ 86,390

Note 14 – Other Commitments

In June 2012, the Borough of Kutztown adopted an ordinance increasing the indebtedness of the Borough through the issuance of a general obligation note for \$199,742. After issuance, the note was sold to Berks County. The indebtedness was required to fulfill a Berks county wide mandate to the emergency system radios. The Borough does not own any of the radio equipment purchased by the issuance of the debt; it is in the possession of the related fire and emergency service providers. The interest rate on the Note is 9% interest and the repayments are due annually for seven years from June 1, 2013 to 2019 in the amount of \$28,535. The debt is not recorded on the Borough's balance sheet because there is no corresponding asset derived from the mandated transaction. The payments are recorded as part of the expenditures for the related services provided by the fire and emergency service providers. The outstanding balance at year-end is \$28,533.

Note 15 - Contingencies

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

Note 16 – Risk Management

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

The Borough received federal and state grants for specific purposes which are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the grantor 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.

BOROUGH OF KUTZTOWN
Notes To Financial Statements
Year Ended December 31, 2018

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

Note 17 – Fund Balances

Detailed information about aggregated fund balances;

Restricted Fund Balances

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

Highway Aid Fund	101,630
Fire Protection Fund	144,509
Recreation Tax Fund	85,035
Road Tax Fund	42,874
Unemployment Compensation Escrow Fund	106,413
TOTAL	\$ 480,461

Note 18 – Subsequent Events

The subsequent events have been evaluated through July 9, 2019, which is the date of the financial statements were available to be issued.



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

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, 2018, and the related notes to the financial statements, which collectively comprise the Borough of Kutztown's basis financial statements and have issued our report thereon dated July 9, 2019.

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.

BOROUGH COUNCIL

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

Compliance and Other Matters

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

Borough of Kutztown's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 9, 2019

BOROUGH OF KUTZTOWN
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

SECTION I – AUDIT FINDINGS

Material Weakness

18.01 – General Ledger Accounts Reconciliations

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

Significant Deficiencies

18.02 – Recording of Revenues and Expenses

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

SECTION II – SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Material Weakness

17.01 – General Ledger Accounts Reconciliations

<i>Condition:</i>	General Ledger accounts should be reconciled on a monthly basis.
<i>Comments:</i>	This condition has not been corrected and is cited as a current year material weakness as finding 18.01.

Significant Deficiencies

17.02 – Segregation of Duties

<i>Condition:</i>	Recording of Revenues and Expenses
<i>Comments:</i>	This condition has not been corrected and is cited as a current year significant deficiency as finding 18.02.

REQUIRED SUPPLEMENTAL INFORMATION

BOROUGH OF KUTZTOWN
Required Supplementary Information
December 31, 2018

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

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

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

	Measurement Year Ending			
	12/31/2017	12/31/2016	12/31/2015	12/31/2014
<u>Total Pension Liability</u>				
Service Cost	\$ 164,621	\$ 139,939	\$ 133,275	\$ 130,581
Interest Cost	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	(202,383)	(190,002)	(159,444)	(113,222)
Net Change in Total Pension Liability	267,815	301,288	(72,001)	349,457
Total Pension Liability - Beginning	4,789,911	4,488,623	4,560,624	4,211,167
Total Pension Liability - Ending	\$ 5,057,726	\$ 4,789,911	\$ 4,488,623	\$ 4,560,624
<u>Plan Fiduciary Net Position</u>				
Contributions - Employer	81,099	85,978	179,232	168,437
Contributions - Member	51,081	48,604	48,205	48,132
Net Investment Income	807,488	212,912	(4,999)	252,593
Benefit Payments, including Refunds of Member Contributions	(202,383)	(190,002)	(159,444)	(113,222)
Administrative Expense	(6,800)	(6,300)	(8,700)	-
Net Change in Plan Fiduciary Net Position	\$ 730,485	\$ 151,192	\$ 54,294	\$ 355,940
Plan Net Position - Beginning	5,034,936	4,883,744	4,829,450	4,437,510
Plan Net Position - Ending	\$ 5,765,421	\$ 5,034,936	\$ 4,883,744	\$ 4,793,450
Borough's Net Pension Liability (Asset)	\$ (707,695)	\$ (245,025)	\$ (395,121)	\$ (268,826)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	113.99%	105.12%	108.8%	105.0%
Covered Employee Payroll	\$ 966,351	\$ 992,971	\$ 983,083	\$ 901,757
Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	8.39%	8.66%	18.23%	18.68%

*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, 2018

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
2008	\$ 131,371	\$ 131,371	\$ -	\$ 2,014,166	6.52%
2009	92,944	92,944	-	2,149,204	4.32%
2010	102,011	102,011	-	2,166,298	4.71%
2011	111,309	111,309	-	2,162,247	5.15%
2012	105,373	105,373	-	2,193,478	4.80%
2013	75,812	75,812	-	2,080,925	3.64%
2014	71,055	81,890	(10,835)	2,324,479	3.52%
2015	241,045	241,125	(80)	2,196,450	10.98%
2016	250,418	250,458	(40)	2,314,341	10.82%
2017	326,278	326,338	(60)	2,398,399	13.61%

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, 2018

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
2008	\$ 91,327	\$ 91,327	\$ -	\$ 698,866	13.07%
2009	104,763	104,763	-	737,267	14.21%
2010	94,417	94,417	-	789,116	11.96%
2011	187,279	187,279	-	782,927	23.92%
2012	162,905	162,905	-	799,951	20.36%
2013	172,292	172,292	-	898,354	19.18%
2014	168,437	168,437	-	901,757	18.68%
2015	179,232	179,232	-	983,083	18.23%
2016	85,978	85,978	-	992,971	8.66%
2017	81,099	81,099	-	966,351	8.39%

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, 2018

Schedule of Changes in the Net OPEB Liabilities and Related Ratios

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

	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	\$ 143,624	\$ 84,150	\$ 40,662	\$ 101,630	\$ 370,066
Real Estate Taxes Receivable	885	885	2,212	-	3,982
Due from Other Funds	-	-	-	-	-
TOTAL ASSETS	\$ 144,509	\$ 85,035	\$ 42,874	\$ 101,630	\$ 374,048
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-
<u>FUND BALANCES:</u>					
Nonspendable	-	-	-	-	-
Restricted	144,509	85,035	42,874	101,630	374,048
TOTAL FUND BALANCES	144,509	85,035	42,874	101,630	374,048
TOTAL LIABILITIES AND FUND BALANCES	\$ 144,509	\$ 85,035	\$ 42,874	\$ 101,630	\$ 374,048

BOROUGH OF KUTZTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Special Revenue Funds
For the Year Ended December 31, 2018

	NON-MAJOR				TOTAL
	FIRE PROTECTION FUND	RECREATION TAX FUND	ROAD TAX FUND	HIGHWAY AID FUND	SPECIAL REVENUE FUNDS
REVENUES					
Real Estate Taxes	\$ 78,377	\$ 78,377	\$ 195,945	\$ -	\$ 352,699
Liquid Fuels Tax	-	-	-	152,689	152,689
Investment Earnings	1,775	1,613	1,668	2,949	8,005
TOTAL REVENUES	<u>80,152</u>	<u>79,990</u>	<u>197,613</u>	<u>155,638</u>	<u>513,393</u>
EXPENDITURES					
General Government	-	-	-	-	-
Public Safety	782	-	-	-	782
Public Works	-	-	3,132	-	3,132
Culture and Recreation	-	1,330	-	-	1,330
Community Development	-	-	-	-	-
Debt Service	-	-	-	-	-
TOTAL EXPENDITURES	<u>782</u>	<u>1,330</u>	<u>3,132</u>	<u>-</u>	<u>5,244</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>79,370</u>	<u>78,660</u>	<u>194,481</u>	<u>155,638</u>	<u>508,149</u>
OTHER FINANCING SOURCES (SOURCES)					
Transfers In	-	-	-	-	-
Transfers Out	(60,001)	(84,447)	(204,960)	(106,737)	(456,145)
TOTAL OTHER FINANCING SOURCES	<u>(60,001)</u>	<u>(84,447)</u>	<u>(204,960)</u>	<u>(106,737)</u>	<u>(456,145)</u>
NET CHANGES IN FUND BALANCE	19,369	(5,787)	(10,479)	48,901	52,004
FUND BALANCES - BEGINNING	125,140	90,822	53,353	52,729	322,044
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-
FUND BALANCES - ENDING	<u>\$ 144,509</u>	<u>\$ 85,035</u>	<u>\$ 42,874</u>	<u>\$ 101,630</u>	<u>\$ 374,048</u>

BOROUGH OF KUTZTOWN
Combining Statement of Net Position
All Proprietary Funds
As December 31, 2018

	MAJOR				NON-MAJOR	
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,466,853	\$ 641,459	\$ 1,159,979	\$ 120,544	\$ 722,258	\$ 5,111,093
Investments	-	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	685,937	178,901	189,882	55,911	87,960	1,198,591
Prepaid Expenses	14,406	12,834	22,085	11,082	2,937	63,344
Due from Other Funds	30,436	731	520	8,069	946	40,702
TOTAL CURRENT ASSETS	3,197,632	833,925	1,372,466	195,606	814,101	6,413,730
NON-CURRENT ASSETS:						
Land	-	477,407	813,292	1,422	-	1,292,121
Buildings (Net of Depreciation)	790,909	5,572,244	5,743,719	62,700	107,014	12,276,586
Machinery and Equipment (Net of Depreciation)	1,183,802	6,129,854	10,166,534	2,327,041	437,650	20,244,881
Unamortized Bond Costs	25,873	307,446	137,879	12,743	-	483,941
TOTAL NON-CURRENT ASSETS	2,000,584	12,486,951	16,861,424	2,403,906	544,664	34,297,529
TOTAL ASSETS	\$ 5,198,216	\$ 13,320,876	\$ 18,233,890	\$ 2,599,512	\$ 1,358,765	\$ 40,711,259
DEFERRED OUTFLOWS OF RESOURCES						
	\$ 168,205	\$ 119,470	\$ 111,825	\$ 93,723	\$ 71,069	\$ 564,292
LIABILITIES						
CURRENT LIABILITIES:						
Accounts Payable	\$ 472,314	\$ 18,769	\$ 33,926	\$ 8,427	\$ 11,784	\$ 545,220
Accrued Salaries and Benefits	24,668	18,086	15,306	12,851	10,480	81,391
Sales Tax Payable	8,958	-	-	-	-	8,958
Customer Deposits	149,900	-	-	-	-	149,900
Interest Payable	10,510	86,174	57,716	823	-	155,223
Notes Payable	155,000	400,000	435,000	150,000	-	1,140,000
TOTAL CURRENT LIABILITIES	821,350	523,029	541,948	172,101	22,264	2,080,692
NON-CURRENT LIABILITIES:						
Other Post Employment Benefits	96,253	74,177	63,991	53,632	40,669	328,722
Net Pension Liability	210,253	162,027	139,778	117,152	88,836	718,046
Notes Payable	1,665,000	8,160,000	6,340,000	-	-	16,165,000
TOTAL NON-CURRENT LIABILITIES	1,971,506	8,396,204	6,543,769	170,784	129,505	17,211,768
TOTAL LIABILITIES	2,792,856	8,919,233	7,085,717	342,885	151,769	19,292,460
DEFERRED INFLOWS OF RESOURCES						
	\$ 192,096	\$ 148,035	\$ 127,707	\$ 107,035	\$ 81,164	\$ 656,037
NET POSITION						
Invested in Capital Assets, Net of Related Debt	154,711	3,619,505	9,948,545	2,241,163	544,664	16,508,588
Restricted	-	-	-	-	-	-
Unrestricted Net Position	2,226,758	753,573	1,183,746	2,152	652,237	4,818,466
TOTAL NET POSITION	\$ 2,381,469	\$ 4,373,078	\$ 11,132,291	\$ 2,243,315	\$ 1,196,901	\$ 21,327,054

BOROUGH OF KUTZTOWN
Combining Statement of Additions, Deductions and Changes in Net Position
All Proprietary Funds
For the Year Ended December 31, 2018

	MAJOR				NON-MAJOR	
	ELECTRIC FUND	WATER FUND	SEWER FUND	TELECOM FUND	REFUSE FUND	TOTAL
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 6,663,517	\$ 1,998,130	\$ 1,967,089	\$ 841,519	\$ 879,728	\$ 12,349,983
Penalties	45,734	10,417	9,982	74,823	6,852	147,808
Other Fees	-	14,787	34,998	-	-	49,785
Rental Income	94,986	-	-	-	-	94,986
Other Income	102,238	91,129	133,234	119,100	112,505	558,206
SCADA and Equipment Lease	-	-	-	132,420	-	132,420
TOTAL OPERATING REVENUES	<u>6,906,475</u>	<u>2,114,463</u>	<u>2,145,303</u>	<u>1,167,862</u>	<u>999,085</u>	<u>13,333,188</u>
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	3,319,542	588,759	551,575	640,324	374,295	5,474,495
Employee Wages	513,687	402,513	341,505	286,225	217,042	1,760,972
Employee Benefits	232,362	204,309	170,482	125,629	99,970	832,752
Employee Pension	69,624	54,343	47,150	38,390	29,958	239,465
Insurance	89,437	141,876	117,204	28,882	19,177	396,576
Debt Service	80,478	267,808	168,106	8,643	-	525,035
Depreciation	150,843	401,929	514,224	319,838	86,876	1,473,710
TOTAL OPERATING EXPENSES	<u>4,455,973</u>	<u>2,061,537</u>	<u>1,910,246</u>	<u>1,447,931</u>	<u>827,318</u>	<u>10,703,005</u>
OPERATING INCOME (LOSS)	<u>2,450,502</u>	<u>52,926</u>	<u>235,057</u>	<u>(280,069)</u>	<u>171,767</u>	<u>2,630,183</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	40,474	6,963	12,210	641	7,219	67,507
State Grants	-	-	-	-	9,042	9,042
Transfers from Other Funds	32,512	7,705	6,801	271,325	1,250	319,593
Transfers to Other Funds	(2,359,073)	(8,782)	(4,797)	(5,206)	(20,158)	(2,398,016)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,286,087)</u>	<u>5,886</u>	<u>14,214</u>	<u>266,760</u>	<u>(2,647)</u>	<u>(2,001,874)</u>
CHANGES IN NET POSITION	164,415	58,812	249,271	(13,309)	169,120	628,309
NET POSITION, JANUARY 1, 2018	2,259,866	4,346,737	10,903,845	2,274,125	1,040,869	20,825,442
PRIOR PERIOD ADJUSTMENT	(42,812)	(32,471)	(20,825)	(17,501)	(13,088)	(126,697)
NET POSITION, DECEMBER 31, 2018	<u>\$ 2,381,469</u>	<u>\$ 4,373,078</u>	<u>\$ 11,132,291</u>	<u>\$ 2,243,315</u>	<u>\$ 1,196,901</u>	<u>\$ 21,327,054</u>

**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, 2018

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 432,224	
Real Estate Taxes - Prior	8,479	
Real Estate Transfer Tax	106,493	
Earned Income Tax	417,298	
Per Capita	8,432	
Local Services Tax	81,284	
Admissions Tax	22,801	
Mechanical Tax	735	
	<u>735</u>	\$ 1,077,746

FINES AND FORFEITS:

Motor Vehicle Violations	20,656	
Fines	42,360	
Criminal Violations	24,326	
Parking Tickets	48,425	
	<u>48,425</u>	135,767

LICENSES AND PERMITS:

Franchise Fee Cable	25,355	
Permits/Reports	149,984	
	<u>149,984</u>	175,339

INTERGOVERNMENTAL:

Public Utility Realty Tax	-	
In Lieu of Taxes	1,491	
Beverage Licenses	1,150	
Pension State Aid	313,854	
Allotment - Fireman's Relief	24,147	
State Grants	24,200	
	<u>24,200</u>	364,842

CHARGES FOR SERVICES:

General Government	7,662	
Public Safety	125,297	
Highways and Streets	-	
Culture and Recreation	79,470	
	<u>79,470</u>	212,429

INVESTMENT AND RENTAL EARNINGS:

Interest Income	22,783	
Rentals	404,295	
	<u>404,295</u>	427,078

MISCELLANEOUS:

Contributions and Donations	13,292	
Reimbursements	231,632	
Refund of Prior Year Expenditure	132,830	
Other	21,993	
	<u>21,993</u>	399,747

TOTAL REVENUES	\$ 2,792,948
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BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor \$ 17,553

MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Employee Wages 90,624
Employee Benefits 67,868
Employee Pension 12,460
Insurance 44,771
Contracted Services 65,310
Advertising, Printing and Postage 10,055
Vehicle Expenses 1,209
Operating/Office Expenses 21,664
Dues, Meetings and Training 8,719
Small Tools, Equipment and Building -

FINANCE AND ACCOUNTING:

Salary 19,150
Employee Benefits 1,465
Employee Pension 56
Audit and Accounting Fees 9,140

TAX COLLECTION:

Employee Wages 906
Employee Benefits -
Contracted Services 1,856

ENGINEERING:

Engineering Fees 1,502

BUILDINGS AND PLANT:

Employee Wages 1,269
Employee Benefits 588
Employee Pension 172
Operating Supplies 5,561
Heating and Utilities 48,459
Insurance 8,824
Repairs and Maintenance 43,892
Contracted Services 7,744

TOTAL GENERAL GOVERNMENT \$ 490,817

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018

PUBLIC SAFETY

POLICE:

Employee Wages	\$ 1,262,997
Employee Benefits	390,018
Employee Pension	84,887
Operating Supplies	20,837
Vehicle Maintenance and Repair	25,752
Uniforms	17,456
Training, Seminars, Certs	11,747
Ammunition	8,459
Insurance	55,747
Legal	-
Dues, Subs and Memberships	1,392
Small Tools and Equipment	38,615
Telephone/Communications	75,093
Postage, Printing and Advertising	7,959
Repairs and Maintenance	493
Refuse	423
Contracted Services	31,565
Capital Purchases	42,476

FIRE AND AMBULANCE:

Rent of Machine & Equipment	88,450
Insurance	-
Telephone/Communications	36,338
Contributions	30,000
Other Services	-

INSPECTIONS AND ZONING:

Employee Wages	131,670
Employee Benefits	93,378
Employee Pension	18,212
Vehicle Maintenance and Repair	555
Heating and Utilities	7,754
Operating Supplies	10,979
Telephone/Communications	6,008
Training, Seminars, Certs	1,384
Legal Services	12,252
Engineering Services	3,421
Small Tools and Equipment	-
Postage, Printing and Advertising	3,658
Insurance	687
Dues, Subs and Memberships	672
Rent of Building	15,000
Repairs and Maintenance	-
Contracted Services	54,095

EMERGENCY MANAGEMENT:

Training, Seminars, Certs	-
Operating Supplies	-
Postage, Printing and Advertising	263
Insurance	-
Contracted Services	566

TOTAL PUBLIC SAFETY	\$	2,591,258
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BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018

PUBLIC WORKS

STREET MAINTENANCE AND LIGHTING:

Employee Wages	\$ 259,016
Employee Benefits	130,499
Employee Pension	35,325
Training, Seminars, Certs	617
Operating Supplies	47,195
Vehicle Maintenance and Repairs	15,630
Uniforms	2,470
Insurance	19,313
Small Tools and Equipment	5,020
Repairs and Maintenance Land & Equip	2,966
Engineering Services	6,371
Telephone/Communications	3,710
Postage, Printing and Advertising	451
Contracted Services	20,400
Rent of Building	37,184
Heating and Utilities	62,578
Capital Improvements	450,675
Snow Removal Materials	29,089

TOTAL PUBLIC WORKS \$ 1,128,509

CULTURE AND RECREATION

PARKS AND POOL:

Employee Wages	309,847
Employee Benefits	90,331
Employee Pension	25,267
Training, Seminars, Certs	30
Operating Supplies	46,941
Small Tools and Equipment	617
Insurance	14,976
Vehicle Maintenance and Repairs	2,884
Telephone/Communications	-
Postage, Printing and Advertising	2,532
Heating and Utilities	40,766
Repairs and Maint Building, Land & Equip	21,977
Contracted Services	27,064
Contributions	20,000
YMCA Programs	6,500
Chemicals	8,008

TOTAL CULTURE AND RECREATION \$ 617,740

BOROUGH OF KUTZTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018

DEBT SERVICE

Debt Principal	\$ 135,000
Interest Expense	7,744
Amortization and Other Issuance Costs	<u>-</u>

TOTAL DEBT SERVICE \$ 142,744

UNCLASSIFIED EXPENDITURES

C, G & S to Non-Profits	35,639
Foreign Fire Tax Disbursement	24,147
Other Miscellaneous	<u>1,464</u>

TOTAL UNCLASSIFIED EXPENDITURES \$ 61,250

TOTAL EXPENDITURES 5,032,318

DEFICIENCY OF REVENUES OVER EXPENDITURES (2,239,370)

**OTHER FINANCING SOURCES AND
OTHER FINANCING USES**

Sale of Fixed Assets	-	
Refund of Prior Year Expenditures	-	
Interfund Transfers In	2,574,730	
Interfund Transfers Out	<u>(40,162)</u>	<u>2,534,568</u>

NET CHANGE IN FUND BALANCES 295,198

FUND BALANCE - JANUARY 1, 2018 1,306,346

PRIOR PERIOD ADJUSTMENT -

FUND BALANCE - DECEMBER 31, 2018 **\$ 1,601,544**

BOROUGH OF KUTZTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 6,576,980	\$ 6,663,517
Penalties	20,000	45,734
Rental Income	85,818	94,986
Other Income	8,300	102,238
TOTAL OPERATING REVENUES	<u>6,691,098</u>	<u>6,906,475</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	3,490,210	3,319,542
Employee Wages	464,021	513,687
Employee Benefits	223,594	232,362
Employee Pension	42,604	69,624
Insurance	79,802	89,437
Debt Service	320,000	80,478
Depreciation	-	150,843
TOTAL OPERATING EXPENSES	<u>4,620,231</u>	<u>4,455,973</u>
OPERATING INCOME	<u>2,070,867</u>	<u>2,450,502</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	4,000	40,474
Transfers from Other Funds		32,512
Transfers to Other Funds	(1,990,402)	(2,359,073)
TOTAL NON-OPERATING (EXPENSES)	<u>(1,986,402)</u>	<u>(2,286,087)</u>
CHANGES IN NET POSITION	84,465	164,415
NET POSITION, JANUARY 1, 2018	(84,465)	2,259,866
PRIOR PERIOD ADJUSTMENT	-	(42,812)
NET POSITION, DECEMBER 31, 2018	<u>\$ -</u>	<u>\$ 2,381,469</u>

BOROUGH OF KUTZTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,864,571	\$ 1,998,130
Penalties	1,000	10,417
Other Fees	12,000	14,787
Rental Income	5,000	-
Other Income	2,600	91,129
TOTAL OPERATING REVENUES	<u>1,885,171</u>	<u>2,114,463</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	509,496	588,759
Employee Wages	384,424	402,513
Employee Benefits	186,012	204,309
Employee Pension	38,619	54,343
Insurance	133,620	141,876
Debt Service	638,000	267,808
Depreciation	-	401,929
TOTAL OPERATING EXPENSES	<u>1,890,171</u>	<u>2,061,537</u>
OPERATING INCOME (LOSS)	<u>(5,000)</u>	<u>52,926</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	5,000	6,963
Transfers from Other Funds	-	7,705
Transfers to Other Funds	-	(8,782)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>5,000</u>	<u>5,886</u>
CHANGES IN NET POSITION	-	58,812
NET POSITION, JANUARY 1, 2018	-	4,346,737
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(32,471)</u>
NET POSITION, DECEMBER 31, 2018	<u>\$ -</u>	<u>\$ 4,373,078</u>

BOROUGH OF KUTZTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,781,618	\$ 1,967,089
Penalties	1,000	9,982
Other Fees	-	34,998
Other Income	<u>27,400</u>	<u>133,234</u>
TOTAL OPERATING REVENUES	<u>1,810,018</u>	<u>2,145,303</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	659,321	551,575
Employee Wages	341,193	341,505
Employee Benefits	150,176	170,482
Employee Pension	32,817	47,150
Insurance	122,511	117,204
Debt Service	505,000	168,106
Depreciation	<u>-</u>	<u>514,224</u>
TOTAL OPERATING EXPENSES	<u>1,811,018</u>	<u>1,910,246</u>
OPERATING INCOME	<u>(1,000)</u>	<u>235,057</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	1,000	12,210
Transfers from Other Funds	-	6,801
Transfers to Other Funds	<u>-</u>	<u>(4,797)</u>
TOTAL NON-OPERATING (EXPENSES)	<u>1,000</u>	<u>14,214</u>
CHANGES IN NET POSITION	-	249,271
NET POSITION, JANUARY 1, 2018	-	10,903,845
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(20,825)</u>
NET POSITION, DECEMBER 31, 2018	<u>\$ -</u>	<u>\$ 11,132,291</u>

BOROUGH OF KUTZTOWN
Telecommunications Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,089,000	\$ 841,519
Rental Income	70,164	74,823
SCADA and Equipment Lease	134,120	132,420
Other Income	5,000	119,100
TOTAL OPERATING REVENUES	<u>1,298,284</u>	<u>1,167,862</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Service	890,455	640,324
Employee Wages	294,079	286,225
Employee Benefits	115,505	125,629
Employee Pension	30,395	38,390
Insurance	24,658	28,882
Debt Service	159,000	8,643
Depreciation	-	319,838
TOTAL OPERATING EXPENSES	<u>1,514,092</u>	<u>1,447,931</u>
OPERATING (LOSS)	<u>(215,808)</u>	<u>(280,069)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	100	641
Transfers to Other Funds	-	(5,206)
Transfers from Other Funds	-	271,325
TOTAL NON-OPERATING REVENUES	<u>100</u>	<u>266,760</u>
CHANGES IN NET POSITION	(215,708)	(13,309)
NET POSITION, JANUARY 1, 2018	215,708	2,274,125
PRIOR PERIOD ADJUSTMENT	-	(17,501)
NET POSITION, DECEMBER 31, 2018	<u>\$ -</u>	<u>\$ 2,243,315</u>

BOROUGH OF KUTZTOWN
Refuse and Recycling Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2018

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 864,949	\$ 879,728
Penalties	-	6,852
Other Income	8,000	112,505
TOTAL OPERATING REVENUES	<u>872,949</u>	<u>999,085</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Service	357,662	374,295
Employee Wages	318,401	217,042
Employee Benefits	171,209	99,970
Employee Pension	35,401	29,958
Insurance	17,040	19,177
Depreciation	-	86,876
TOTAL OPERATING EXPENSES	<u>899,713</u>	<u>827,318</u>
OPERATING (LOSS)	<u>(26,764)</u>	<u>171,767</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	200	7,219
State Grants	4,800	9,042
Transfers to Other Funds	-	(20,158)
Transfer from Other Funds	-	1,250
TOTAL NON-OPERATING REVENUES	<u>5,000</u>	<u>(2,647)</u>
CHANGES IN NET POSITION	(21,764)	169,120
NET POSITION, JANUARY 1, 2018	21,764	1,040,869
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(13,088)</u>
NET POSITION, DECEMBER 31, 2018	<u><u>\$ -</u></u>	<u><u>\$ 1,196,901</u></u>

**Borough of Kutztown
Highway Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018**

FUND BALANCE - JANUARY 1, 2018		\$ 52,729
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$ 152,689	
INVESTMENT EARNINGS:		
Interest Earnings	<u>2,949</u>	<u>155,638</u>
TOTAL FUNDS AVAILABLE		208,367
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$ -	
OTHER FINANCING USES:		
Transfer To Other Funds	<u>106,737</u>	<u>106,737</u>
FUND BALANCE - DECEMBER 31, 2018		<u>\$ 101,630</u>

**Fire Protection Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2018**

FUND BALANCE - JANUARY 1, 2018		\$ 125,140
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$ 78,377	
Interest Earnings	1,775	
OTHER FINANCING SOURCES:		
Transfer from Other Funds	<u>-</u>	<u>80,152</u>
TOTAL FUNDS AVAILABLE		205,292
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC SAFETY:		
Salaries & Wages	\$ 697	
Employee Benefits	53	
Other Services	32	
C,G & S To Non-Profits	-	
OTHER FINANCING USES:		
Transfer To Other Funds	<u>60,001</u>	<u>60,783</u>
PRIOR PERIOD ADJUSTMENT		<u>-</u>
FUND BALANCE - DECEMBER 31, 2018		<u>\$ 144,509</u>

BOROUGH OF KUTZTOWN
Recreation Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2018

FUND BALANCE - JANUARY 1, 2018		\$ 90,822
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$ 78,377	
Interest Earnings	1,613	
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	79,990
TOTAL FUNDS AVAILABLE		170,812
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
CULTURE AND RECREATION:		
Salaries & Wages	\$ 1,113	
Employee Benefits	85	
Other Services	132	
OTHER FINANCING USES:		
Transfer To Other Funds	84,447	85,777
PRIOR PERIOD ADJUSTMENT		-
FUND BALANCE - DECEMBER 31, 2018		\$ 85,035

Road Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2018

FUND BALANCE - JANUARY 1, 2018		\$ 53,353
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Real Estate Tax	\$ 195,945	
Interest Earnings	1,668	
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	197,613
TOTAL FUNDS AVAILABLE		250,966
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Salaries & Wages	\$ 2,787	
Employee Benefits	213	
Other Services	132	
OTHER FINANCING USES:		
Transfer To Other Funds	204,960	208,092
PRIOR PERIOD ADJUSTMENT		-
FUND BALANCE - DECEMBER 31, 2018		\$ 42,874

BOROUGH OF KUTZTOWN
Unemployment Compensation Escrow Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2018

FUND BALANCE - JANUARY 1, 2018		\$	104,709
<u>REVENUES AND OTHER FINANCING SOURCES</u>			
Interest Earnings	\$	1,704	
OTHER FINANCING SOURCES:			
Transfer From Other Funds		<u>-</u>	<u>1,704</u>
TOTAL FUNDS AVAILABLE			106,413
<u>EXPENDITURES AND OTHER FINANCING USES</u>			
<u>GENERAL GOVERNMENT</u>			
Salaries & Wages	\$	-	
Employee Benefits		-	
Other Services		-	
OTHER FINANCING USES:			
Transfer To Other Funds		<u>-</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2018		\$	<u>106,413</u>

BOROUGH OF KUTZTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2018

NET POSITION - BEGINNING OF YEAR		\$	5,757,458
ADDITIONS:			
State Aid	\$	84,887	
Employee Contributions		54,089	
Miscellaneous		-	
INVESTMENT EARNINGS:			
Interest and Dividends		122,666	
Realized Gains (Losses)		238,284	
Change in Fair Value of Investments		<u>(586,250)</u>	
TOTAL ADDITIONS		<u>(86,324)</u>	

DEDUCTIONS:			
Administrative Charges		10,156	
Investment Expenses		61,157	
Employee Benefits		<u>212,504</u>	
TOTAL DEDUCTIONS		<u>283,817</u>	
CHANGE IN NET POSITION			<u>(370,141)</u>
NET POSITION - END OF YEAR		\$	<u>5,387,317</u>