

**REPORT ON
KUTZTOWN MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

KUTZTOWN MUNICIPAL AUTHORITY
Audited Financial Statements
For the Year Ended December 31, 2019

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FINANCIAL SECTION



August 19, 2020

Members of the Board
Kutztown Municipal Authority
Kutztown, PA 19530

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Kutztown Municipal Authority, a component unit of the Borough of Kutztown, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Kutztown Municipal Authority as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the United States is currently operating under a state of National Emergency due to the Coronavirus Pandemic. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on August 19, 2020, on our consideration of Kutztown Municipal Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Kutztown Municipal Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

August 19, 2020

FINANCIAL STATEMENTS

KUTZTOWN MUNICIPAL AUTHORITY
A Component Unit of the Borough of Kutztown
Statement of Net Position
December 31, 2019

ASSETS	Water Fund	Sewer Fund	Total
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,075,815	\$ 293,912	\$ 1,369,727
Accounts Receivable	66,030	12,100	78,130
Due from Borough of Kutztown	58,339	10,691	69,030
Due from Other Funds	-	41,284	41,284
TOTAL CURRENT ASSETS	1,200,184	357,987	1,558,171
Infrastructure, net	971,831	90,172	1,062,003
TOTAL ASSETS	\$ 2,172,015	\$ 448,159	\$ 2,620,174
DEFERRED OUTFLOW OF RESOURCES	\$ -	\$ -	\$ -
LIABILITIES			
Accounts Payable	\$ 64,929	\$ 8,874	\$ 73,803
Developer Deposits Held	4,000	4,000	8,000
Due to Other Funds	41,284	-	41,284
TOTAL CURRENT LIABILITIES	110,213	12,874	123,087
TOTAL LIABILITES	\$ 110,213	\$ 12,874	\$ 123,087
NET POSITION			
Restricted	\$ 38,658	\$ 293,912	\$ 332,570
Invested in infrastructure assets, net of related debt	971,831	90,172	1,062,003
Unrestricted	1,051,313	51,201	1,102,514
TOTAL NET POSITION	\$ 2,061,802	\$ 435,285	\$ 2,497,087
DEFERRED INFLOW OF RESOURCES	\$ -	\$ -	\$ -

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

KUTZTOWN MUNICIPAL AUTHORITY
A Component Unit of the Borough of Kutztown
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2019

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 969,904	\$ 158,066	\$ 1,127,970
<u>OPERATING EXPENSES</u>			
Water Purchases	776,039	-	776,039
Sewer Processing Charges	-	103,068	103,068
Management & Facility Fees	178	-	178
Depreciation	19,415	1,476	20,891
Other Administrative Costs	36,336	8,518	44,854
Other Operating Costs	4,099	5,350	9,449
	<u>836,067</u>	<u>118,412</u>	<u>954,479</u>
EXCESS (DEFICIT) OPERATING REVENUES OVER OPERATING EXPENSES	<u>133,837</u>	<u>39,654</u>	<u>173,491</u>
<u>NON-OPERATING REVENUES</u>			
Interest Income	781	5,939	6,720
Miscellaneous Income	3,001	3,000	6,001
TOTAL NON-OPERATING REVENUES	<u>3,782</u>	<u>8,939</u>	<u>12,721</u>
CHANGE IN NET POSITION	137,619	48,593	186,212
NET POSITION - JANUARY 1, 2019	<u>1,924,183</u>	<u>386,692</u>	<u>2,310,875</u>
NET POSITION - DECEMBER 31, 2019	<u>\$ 2,061,802</u>	<u>\$ 435,285</u>	<u>\$ 2,497,087</u>

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

KUTZTOWN MUNICIPAL AUTHORITY
Statement of Cash Flows
For the Year Ended December 31, 2019

	Water Fund	Sewer Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from Customers	\$ 933,657	\$ 146,214	\$ 1,079,871
Payments for Water & Sewer Services	(785,654)	(111,478)	(897,132)
Payments for Other Operating Costs	(40,613)	(13,868)	(54,481)
NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES	107,390	20,868	128,258
<u>CASH FLOWS FROM NON-OPERATING ACTIVITIES</u>			
Miscellaneous	3,001	3,000	6,001
Interest Income	781	5,939	6,720
Interfund Transactions	23,870	(23,870)	-
NET CASH PROVIDED (USED) BY NON-OPERATING ACTIVITIES	27,652	(14,931)	12,721
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of Capital Assets	(55,285)	-	(55,285)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(55,285)	-	(55,285)
NET INCREASE IN CASH AND CASH EQUIVALENTS	79,757	5,937	85,694
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2019	996,058	287,975	1,284,033
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2019	\$ 1,075,815	\$ 293,912	\$ 1,369,727
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ 133,837	\$ 39,654	\$ 173,491
Depreciation Expense	19,415	1,476	20,891
(Increase) Decrease in Accounts Receivable	(36,247)	(11,852)	(48,099)
Increase (Decrease) in Accounts Payable	(9,615)	(8,410)	(18,025)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 107,390	\$ 20,868	\$ 128,258

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

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

Note 1 - Description of the Authority and Reporting Entity

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

Financial Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

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

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

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

Note 2 - Basis of Presentation and Fund Accounting

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

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

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

Water Fund

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

Sewer Fund

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

Reservation of Net Assets

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

Water Capital Reserves	\$ 38,658
Sewer Capital Reserves	293,912
TOTAL	\$ 332,570

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

Interfund Receivables/Payables

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Implementation of New Accounting Standards

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

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

GASB Statement No. 84, *Fiduciary Activities*

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

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

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

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

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

Note 4 – Future Changes in Accounting Standards

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

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

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

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

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

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

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Notes to Financial Statements
Year Ended December 31, 2019

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

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

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

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

Note 5 – 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 Authority does not have a policy for custodial credit risk. As of December 31, 2019, \$787,157 of the Authority's bank balance of \$1,037,157 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 Authority's name	787,157
TOTAL	\$ 787,157

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 787,157
Plus: Insured Amount	250,000
Deposit in Transit	-
Less: Outstanding Checks	-
Carrying Amount - Bank Balances	1,037,157
Plus: Deposits in Investment Pool Considered Cash Equivalents	332,570
TOTAL CASH PER FINANCIAL STATEMENTS	\$ 1,369,727

Restricted Cash

The cash balance includes \$332,570 held for capital projects.

Note 6 - Investments

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

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
5. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
6. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
7. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days 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

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

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.

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

<i>Investments</i>	<i>Maturities</i>	<i>Fair Value</i>
PA Local Government Investment Trust/PA Invest Pool		\$ 332,570
TOTAL		\$ 332,570

Fair Value Reporting

The Authority 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 Authority are categorized as Level 1 inputs.

Interest Rate Risk

The Authority 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 Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2019, the Authority's significant investments were rated as:

<i>Investments</i>	<i>Standard & Poor's</i>
PLGIT / PA Invest Pool	AAA

Concentration of Credit Risk

Concentration of Credit Risk is the risk associated with the amount of investments the Authority has with any one issuer that exceed 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Authority places no limit on the amount it may invest in any one issuer. At December 31, 2019, the Authority was not exposed to a concentration of credit

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

Custodial Credit Risk

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

Foreign Currency Risk

The PA Local Government Investment Trust 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	\$ 332,570
Less: Deposits in Investment Pool Considered Cash Equivalents	(332,570)
Total Investments Per Financial Statements	\$ -

Restricted Investments

There are no restricted investments held by the Authority.

For the year ended December 31, 2019, investment income consisted of:

	Water	Sewer	Total
Interest Earnings	\$ 781	5,939	\$ 6,720
TOTAL	\$ 781	5,939	\$ 6,720

Note 7 – Accounts Receivable

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

Note 8 – Fixed Assets and Depreciation

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

	Dec. 31, 2019
Estimated Cost of Facilities and Infrastructure	\$ 1,551,542
Estimated Accumulated Depreciation	(489,539)
TOTAL	\$ 1,062,003

Fixed assets are depreciated over their estimated useful lives of 20 to 100 years. Depreciation, computed on the straight-line method, for the year ended December 31, 2019 was \$20,891.

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

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

Capital Asset activity for the year ended December 31, 2019 was as follows:

	Balance 1/1/19	Additions	Deletions	Balance 12/31/19
<i>Water Fund:</i>				
Infrastructure	\$ 1,348,677	\$ 55,285	\$ -	\$ 1,403,962
<i>Sewer Fund:</i>				
Infrastructure	147,580	-	-	147,580
Total Being Depreciated	\$ 1,496,257	\$ 55,285	\$ -	\$ 1,551,542
Less: Accumulated Depreciation				
Water Fund	412,716	19,415	-	432,131
Sewer Fund	55,932	1,476	-	57,408
Total Accumulated Depreciation	468,648	20,891	-	489,539
Total Capital Assets, Net:				
Water Fund	935,961	35,870	-	971,831
Sewer Fund	91,648	(1,476)	-	90,172
TOTAL	\$ 1,027,609	\$ 34,394	\$ -	\$ 1,062,003

Note 9 – Related Party Transactions

The Municipal Authority pays a fee to the Borough of Kutztown for water service and sewer rentals. For 2019, \$776,039 and \$103,068, respectively, were paid for water purchased and sewer rentals.

Additionally, \$44,854 was paid for management services. At December 31, 2019, Borough of Kutztown owes the Kutztown Municipal Authority an amount of \$69,030 for water and sewer fees.

Note 10 – Commitments and Contingencies

Risk Financing

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

Grant Programs

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

KUTZTOWN MUNICIPAL AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2019

Concentrations

Kutztown University accounted for 72% of the Authority's water sales in 2019.

Note 11 – Subsequent Events

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

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

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

Management has evaluated subsequent events through August 19, 2020, which is the date the financial statements were available to be issued.



Members of the Board
Kutztown Municipal Authority
Kutztown, PA 19530

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

We have audited the financial statements of Kutztown Municipal Authority, a component unit of the Borough of Kutztown, as of and for the year ended December 31, 2019, which collectively comprise the Kutztown Municipal Authority's basic financial statements and have issued our report thereon dated August 19, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

August 19, 2020