

**REPORT ON  
KUTZTOWN MUNICIPAL AUTHORITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**KUTZTOWN MUNICIPAL AUTHORITY**

**Audited Financial Statements**

**For the Year Ended December 31, 2021**

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**FINANCIAL SECTION**

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May 23, 2022

Members of the Board  
Kutztown Municipal Authority  
Kutztown, PA 19530

## INDEPENDENT AUDITOR'S REPORT

### ***Opinions***

We have audited the accompanying Statement of Net Position of the business-type activities of the Kutztown Municipal Authority, a component unit of the Borough of Kutztown, as of December 31, 2021, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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, 2021, and the respective change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kutztown Municipal Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Emphasis of Matter***

As discussed in Note 10 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.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kutztown Municipal Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- a) Exercise professional judgment and maintain professional skepticism throughout the audit.
- b) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- c) Obtain an understanding of internal control relevant to the audit 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 Kutztown Municipal Authority's internal control. Accordingly, no such opinion is expressed.
- d) Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- e) Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kutztown Municipal Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 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 Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2022, 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.***

May 23, 2022

**KUTZTOWN MUNICIPAL AUTHORITY**  
**A Component Unit of the Borough of Kutztown**  
**Statement of Net Position**  
**December 31, 2021**

<b>ASSETS</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,417,218	\$ 295,349	\$ 1,712,567
Accounts Receivable	78,560	17,457	96,017
Due from Borough of Kutztown	82,676	18,372	101,048
Due from Other Funds	-	138,130	138,130
<b>TOTAL CURRENT ASSETS</b>	<b>1,578,454</b>	<b>469,308</b>	<b>2,047,762</b>
<b>Infrastructure, net</b>	<b>938,021</b>	<b>87,218</b>	<b>1,025,239</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,516,475</b>	<b>\$ 556,526</b>	<b>\$ 3,073,001</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 68,370	\$ 10,797	\$ 79,167
Developer Deposits Held	30,675	4,000	34,675
Due to Other Funds	138,130	-	138,130
<b>TOTAL CURRENT LIABILITIES</b>	<b>237,175</b>	<b>14,797</b>	<b>251,972</b>
<b>TOTAL LIABILITES</b>	<b>\$ 237,175</b>	<b>\$ 14,797</b>	<b>\$ 251,972</b>
<b>NET POSITION</b>			
Restricted	\$ 38,847	\$ 295,349	\$ 334,196
Invested in infrastructure assets, net of related debt	938,021	87,218	1,025,239
Unrestricted	1,302,432	159,162	1,461,594
<b>TOTAL NET POSITION</b>	<b>\$ 2,279,300</b>	<b>\$ 541,729</b>	<b>\$ 2,821,029</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2021**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 956,117	\$ 197,725	\$ 1,153,842
<b><u>OPERATING EXPENSES</u></b>			
Water Purchases	774,235	-	774,235
Sewer Processing Charges	-	115,703	115,703
Management & Facility Fees	4,172	4,171	8,343
Depreciation	22,752	1,476	24,228
Other Administrative Costs	38,649	9,500	48,149
Other Operating Costs	<u>7,417</u>	<u>3,057</u>	<u>10,474</u>
	847,225	133,907	981,132
<b>EXCESS (DEFICIT) OPERATING REVENUES OVER OPERATING EXPENSES</b>	<u>108,892</u>	<u>63,818</u>	<u>172,710</u>
<b><u>NON-OPERATING REVENUES</u></b>			
Interest Income	656	35	691
Miscellaneous Income	<u>2,206</u>	<u>2,206</u>	<u>4,412</u>
<b>TOTAL NON-OPERATING REVENUES</b>	2,862	2,241	5,103
<b>CHANGE IN NET POSITION</b>	111,754	66,059	177,813
<b>NET POSITION - JANUARY 1, 2021</b>	<u>2,167,546</u>	<u>475,670</u>	<u>2,643,216</u>
<b>NET POSITION - DECEMBER 31, 2021</b>	<u>\$ 2,279,300</u>	<u>\$ 541,729</u>	<u>\$ 2,821,029</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, 2021**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from Customers	\$ 939,831	\$ 201,406	\$ 1,141,237
Payments for Water & Sewer Services	(751,530)	(122,208)	(873,738)
Payments for Other Operating Costs	<u>(50,238)</u>	<u>(12,557)</u>	<u>(62,795)</u>
<b>NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES</b>	<b>138,063</b>	<b>66,641</b>	<b>204,704</b>
<b><u>CASH FLOWS FROM NON-OPERATING ACTIVITIES</u></b>			
Miscellaneous	2,206	2,206	4,412
Interest Income	656	35	691
Interfund Transactions	<u>68,847</u>	<u>(68,847)</u>	<u>-</u>
<b>NET CASH PROVIDED (USED) BY NON-OPERATING ACTIVITIES</b>	<b>71,709</b>	<b>(66,606)</b>	<b>5,103</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Purchase of Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>209,772</b>	<b>35</b>	<b>209,807</b>
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1, 2021</b>	<b><u>1,207,446</u></b>	<b><u>295,314</u></b>	<b><u>1,502,760</u></b>
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2021</b>	<b><u>\$ 1,417,218</u></b>	<b><u>\$ 295,349</u></b>	<b><u>\$ 1,712,567</u></b>
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>			
Operating Income (Loss)	\$ 108,892	\$ 63,818	\$ 172,710
Depreciation Expense	22,752	1,476	24,228
(Increase) Decrease in Accounts Receivable	(42,961)	3,681	(39,280)
Increase (Decrease) in Customer Deposits	26,675	-	26,675
Increase (Decrease) in Accounts Payable	<u>22,705</u>	<u>(2,334)</u>	<u>20,371</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 138,063</u></b>	<b><u>\$ 66,641</u></b>	<b><u>\$ 204,704</u></b>

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

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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**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, 2021**

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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:

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Water Capital Reserves	\$ 38,847
Sewer Capital Reserves	295,349
<b>TOTAL</b>	<b>\$ 334,196</b>

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**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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*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 2021:

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

GASB Statement No. 98, *The Annual Comprehensive Financial Report*

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

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

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

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

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

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

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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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, 2021, \$1,128,636 of the Authority's bank balance of \$1,378,636 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	1,128,636
<b>TOTAL</b>	<b><u>\$ 1,128,636</u></b>

*Reconciliation to Financial Statements*

Uncollateralized Amount Above	\$ 1,128,636
Plus: Insured Amount	250,000
Deposit in Transit	-
Less: Outstanding Checks	<u>(265)</u>
Carrying Amount - Bank Balances	1,378,371
Plus: Deposits in Investment Pool Considered Cash Equivalents	<u>334,196</u>
<b>TOTAL CASH PER FINANCIAL STATEMENTS</b>	<b><u>\$ 1,712,567</u></b>

*Restricted Cash*

The cash balance includes \$334,196 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;
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.

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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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 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

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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, 2021, the Authority had the following investments:

<b>Investments</b>	<b>Maturities</b>	<b>Fair Value</b>
PA Local Government Investment Trust/PA Invest Pool		\$ 334,196
<b>TOTAL</b>		<b>\$ 334,196</b>

*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 observable 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, 2021, the Authority's significant investments were rated as:

<b>Investments</b>	<b>Standard &amp; Poor's</b>
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, 2021, the Authority was not exposed to a concentration of credit

*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.

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

Reconciliation to Financial Statements

Total Investments Above	\$ 334,196
Less: Deposits in Investment Pool Considered Cash Equivalents	<u>(334,196)</u>
<b>Total Investments Per Financial Statements</b>	<b>\$ <u><u>-</u></u></b>

Restricted Investments

There are no restricted investments held by the Authority.

For the year ended December 31, 2021, investment income consisted of:

	Water	Sewer	Total
Interest Earnings	\$ 656	35	\$ 691
<b>TOTAL</b>	<b>\$ <u><u>656</u></u></b>	<b><u><u>35</u></u></b>	<b>\$ <u><u>691</u></u></b>

**Note 7 – Accounts Receivable**

All accounts receivable are shown net of an allowance for uncollectible accounts, as applicable. Accounts receivables 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 receivables 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:

	<b><u>Dec. 31, 2021</u></b>
Estimated Cost of Facilities and Infrastructure	\$ 1,562,995
Estimated Accumulated Depreciation	<u>(537,756)</u>
<b>TOTAL</b>	<b>\$ <u><u>1,025,239</u></u></b>

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, 2021 was \$24,228.

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.



**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

Capital Asset activity for the year ended December 31, 2021 was as follows:

	<u>Balance 1/1/21</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/21</u>
<i>Water Fund:</i>				
Infrastructure	\$ 1,415,415	\$ -	\$ -	\$ 1,415,415
<i>Sewer Fund:</i>				
Infrastructure	147,580	-	-	147,580
Total Being Depreciated	\$ 1,562,995	\$ -	\$ -	\$ 1,562,995
Less: Accumulated Depreciation				
Water Fund	454,644	22,752	-	477,396
Sewer Fund	58,884	1,476	-	60,360
Total Accumulated Depreciation	513,528	24,228	-	537,756
Total Capital Assets, Net:				
Water Fund	960,771	(22,752)	-	938,019
Sewer Fund	88,696	(1,476)	-	87,220
<b>TOTAL</b>	<b>\$ 1,049,467</b>	<b>\$ (24,228)</b>	<b>\$ -</b>	<b>\$ 1,025,239</b>

**Note 9 – Related Party Transactions**

The Municipal Authority pays a fee to the Borough of Kutztown for water service and sewer rentals. For 2021, \$774,235 and \$115,703, respectively, were paid for water purchased and sewer rentals.

Additionally, \$48,149 was paid for management services. At December 31, 2021, the Borough of Kutztown owes the Kutztown Municipal Authority an amount of \$101,048 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.

*Concentrations*

Kutztown University accounted for 65% of the Authority's water sales in 2021.

**KUTZTOWN MUNICIPAL AUTHORITY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2021**

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**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 May 23, 2022, 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, 2021, which collectively comprise the Kutztown Municipal Authority's basic financial statements and have issued our report thereon dated May 23, 2021. 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.

***Report on 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

***Report on 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*.

***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.***

May 23, 2022