INDEPENDENT AUDITORS' REPORT

To the Members of the
Kutztown Transportation Authority

We have audited the statement of net assets-cash basis of the Kutztown Transportation Authority as of December 31, 2005 and the related statements of revenues, expenditures and changes in net assets-cash basis for the year then ended. These financial statements are the responsibility of the Kutztown Transportation Authority. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Authority's policy is to prepare its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets-cash basis of the Kutztown Transportation Authority as of December 31, 2005, and its revenues, expenditures, and changes in net assets-cash basis for the year then ended, on the basis of accounting described in Note 1.

The Kutztown Transportation Authority has not presented the management's discussion and analysis and the budgetary comparison information that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Long, Barrell & Co., Ltd.
Certified Public Accountants
March 27, 2006
Kutztown Transportation Authority
Statement of Net Assets - Cash Basis
December 31, 2005

ASSETS

CURRENT ASSETS
Cash and cash equivalents

TOTAL ASSETS

$ 12,354

LIABILITIES

NET ASSETS
Reserved for Capital Outlay $ 1,936
Reserved for Operations 9,806
Unreserved 612

TOTAL LIABILITIES AND NET ASSETS

$ 12,354

See accompanying notes to the financial statements
Kutztown Transportation Authority
Statement of Revenues, Expenditures, and Changes in Net Assets - Cash Basis
For the Year Ended December 31, 2005

<table>
<thead>
<tr>
<th>OPERATING REVENUES</th>
<th>$ 7,020</th>
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</thead>
<tbody>
<tr>
<td>Charges for Services</td>
<td></td>
</tr>
<tr>
<td>Received from Borough of Kutztown</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>258</td>
</tr>
<tr>
<td></td>
<td>$ 7,278</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENDITURES</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Contracted Services</td>
<td>18,272</td>
</tr>
<tr>
<td>Legal &amp; Auditing Services</td>
<td>1,640</td>
</tr>
<tr>
<td>Office Supplies</td>
<td></td>
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<tr>
<td>Advertising</td>
<td>191</td>
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<td>20,103</td>
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EXCESS OPERATING EXPENDITURES OVER OPERATING RECEIPTS

<table>
<thead>
<tr>
<th>NET ASSETS - beginning</th>
<th>25,179</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NET ASSETS - ending</td>
<td>$ 12,354</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Kutztown Transportation Authority
NOTES TO FINANCIAL STATEMENTS - CASH BASIS
December 31, 2005

Note 1 - Summary of Significant Accounting Policies

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

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

Generally accepted accounting principles require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the Authority. The Authority is a component unit of the Borough of Kutztown and should be included in a combined statement with the Borough. Financial statements for the Borough of Kutztown can be obtained at the Borough offices during normal business hours.

Note 2– Fund Financial Statements:

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

General Fund - used to account for all financial resources except those legally or administratively required to be accounted for in other funds.

Capital Projects Funds - used to account for financial resources related to acquisition, construction or improvement of major capital facilities and infrastructure. Two individual funds comprise this generic group: Transit System Reserve and Transit System Capital Outlay.
Note 3 – Cash and Investments

The Authority maintains cash balances at a local financial institution, which secures deposits that exceed the Federal Deposit Insurance Corporation (FDIC) coverage of $100,000 with a pledge of collateral in accordance with Pennsylvania Pledge Act 72. At December 31, 2005, the Authority’s bank balance was $11,455 and fully covered under FDIC.

The types of securities that are permitted investments for Authority funds are established by Pennsylvania statutes and regulations. Investments held by PLGIT may contain a combination of obligations of the US Government or its agencies or instrumentalities backed by the full faith and credit of the US Government; short term obligations of the US Government or its agencies or instrumentalities with a maturity not greater than 397 days; obligations of the Commonwealth of Pennsylvania or its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or not backed by the full faith and credit of the Commonwealth if otherwise authorized for investment by the statute creating any agency or instrumentality of the Commonwealth issuing such obligations: Federal securities subject to repurchase obligations collateralized by US Treasury or Federal Agency or instrumentality obligations held by the Trust’s Custodian, collateral marked-to-market daily, collateral held by third party custodian bank: FDIC Insured Certificates of Deposits; CDs collateralized under Pennsylvania Pledge Act 72 and shares of registered money market funds which invest solely in the securities described above and which are rated in the highest capacity by a nationally recognized rating agency.

Investments of the Authority consist of the following:

<table>
<thead>
<tr>
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<th>Fair Value/Carrying Amount</th>
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<tr>
<td>PLGIT</td>
<td>$899</td>
</tr>
</tbody>
</table>

As of December 31, 2005, the Authority implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 “Deposit and Investment Risks Disclosures” (GAB 40) and, accordingly, the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

Custodial Credit Risk - the Authority’s deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depository government’s name. The deposit risk is that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At December 31, 2005, the Authority’s bank balance of $11,455 was not exposed to custodial credit risk.
Note 3 – Cash and Investments (continued)

As of December 31, 2005, the Authority’s investments were comprised of obligations of the US Government or its agencies or instrumentalities in the amount of $899. Since the investments are registered in the Authority’s name they are not exposed to custodial credit risk. The Authority does not have a written policy for investment securities custodial credit risk but its practice has been to maintain a safekeeping account for the securities at a financial institution.

Concentration of Credit Risk is the risk associated with the amount of investments the Authority has with any one issuer that exceed 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the US 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, 2005, the Authority was not exposed to a concentration of credit risk.

Credit Risk disclosure required by GASB 40 as to the credit rating of all debt security investments except for obligations of the US government or obligations explicitly guaranteed by the US government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding credit risk except to the extent outlined under the Authority’s investment policy. The Authority’s PLGIT accounts received an AAAm rating by Standard and Poor’s. The Authority’s money market fund is not rated.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a written policy that limits investment maturities as a means of managing its exposures to fair value losses arising from interest rate fluctuations, but the Authority does from time to time evaluate its investment portfolio to determine if based on the interest rate environment, other investment vehicles would provide higher yields that lower the cost and risk. Investments held in PLGIT accounts where cost approximates fair value.

For the year ended December 31, 2005, investment income consisted of:

| Interest earnings | $258 |

Note 5 – Related Party Transactions and Concentrations

The Transportation Authority may receive funds from the Borough of Kutztown; however in 2005 no funds were received from the Borough of Kutztown.

Note 6 - Commitments and Contingencies

Risk Financing
The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority is covered under the Kutztown Borough insurance policy and therefore, no premium for insurance expense is reflected on the financial statements.
Litigation
In the normal course of operations, the Authority may be involved in various civil disputes. Management is of the opinion that any outcome resulting from these actions would not have a material effect on the Authority’s financial position. The Authority is exposed to various risks of loss related 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.

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.