

**REPORT ON
KUTZTOWN TRANSPORTATION AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

KUTZTOWN TRANSPORTATION AUTHORITY

Audited Financial Statements

For the Year Ended December 31, 2020

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September 2, 2021

Members of the Board
Kutztown Transportation Authority
Kutztown, PA 19530

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net assets – cash basis of the business-type activities of the Kutztown Transportation Authority, a component unit of the Borough of Kutztown, as of December 31, 2020, and the related statements of revenues, expenses and changes in net assets – cash basis for the year then ended, 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 the cash basis of accounting; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 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 – cash basis of the business-type activities of the Kutztown Transportation Authority, as of December 31, 2020, and the respective change in financial position – cash basis, thereof for the year then ended, on the basis of accounting described in Note 1.

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.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters*Other 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 September 2, 2021, on our consideration of Kutztown Transportation 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 Transportation Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

September 2, 2021

FINANCIAL STATEMENTS

KUTZTOWN TRANSPORTATION AUTHORITY
Statement of Net Assets – Cash Basis
As of December 31, 2020

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 95,438	
TOTAL CURRENT ASSETS		\$ 95,438

LIABILITIES AND NET ASSETS

LIABILITIES

TOTAL CURRENT LIABILITIES		\$ -
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NET ASSETS

Net Investment in Capital Assets	\$ -	
Restricted	1,075	
Unrestricted Net Assets	94,363	95,438
TOTAL NET ASSETS		\$ 95,438

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

KUTZTOWN TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets – Cash Basis
For the Year Ended December 31, 2020

OPERATING REVENUES

Charges for Services	\$	-	
Other Operating Revenue - Rent		2,298	
TOTAL OPERATING REVENUES			\$ 2,298

OPERATING EXPENSES

Legal & Auditing Services		1,931	
Advertising and Other Services		117	
Other Charges		389	
TOTAL OPERATING EXPENSES			2,437

OPERATING INCOME **\$ (139)**

NON-OPERATING REVENUES

Interest Income		8	
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CHANGE IN NET ASSETS **(131)**

NET ASSETS - BEGINNING **95,569**

NET ASSETS - ENDING **\$ 95,438**

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

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

Note 1 - Description of the Authority and Reporting Entity

The 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, the 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.

The preparation of financial statements on the cash basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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 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.

The Authority distinguishes operating revenues and expenses from nonoperating items. 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 nonoperating revenues and expenses.

Note 2 – Fund Financial Statements – Basis of Presentation

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 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:

Proprietary Activities

The focus of proprietary account measurement is upon determination of net income, financial position, and changes in cash flows. The accounting principles, generally accepted in the United States of America, applicable are those similar to businesses in the private sector. The following is a description of the Authority's proprietary accounts:

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

providing transportation services to the general public on a continuing basis that are financed through charges.

Note – 3 Implementation of New Accounting Standards

The Governmental Accounting Standards Board (GASB) issued the following standards that were scheduled to take effect for calendar year 2020:

GASB Statement No. 83, Certain Asset Retirement Obligations

GASB Statement No. 84, Fiduciary Activities

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

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

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

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

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

Note 4 – Future Change in Accounting Standards

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

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

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

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

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

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

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

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

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB*

KUTZTOWN TRANSPORTATION AUTHORITY
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Year Ended December 31, 2020

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 and Investments

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, 2020, none of the Authority's bank balance of \$94,363 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		-
TOTAL	\$	-

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$	-
Plus: Insured Amount		94,363
Deposit in Transit		-
Less: Outstanding Checks		-
Carrying Amount - Bank balances		94,363
Plus: Deposits in Investment Pool Considered Cash Equivalents		1,075
TOTAL CASH PER FINANCIAL STATEMENTS	\$	95,438

Restricted Cash

The cash balance includes \$1,075 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

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

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 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.

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

- 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, 2020, the Authority had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
PA Local Government Investment Trust		1,075
TOTAL		\$ 1,075

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, 2020, the Authority's significant investments were rated as:

<u>Investments</u>	<u>Standard & Poor's</u>
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, 2020, 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.

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

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	\$ 1,075
Less: Deposits in Investment Pool Considered Cash Equivalents	<u>(1,075)</u>
Total Investments Per Financial Statements	<u>\$ -</u>

Restricted Investments

There are no restricted investments held by the Authority.

Note 7 – Net Position

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

Net investment in capital assets consist of capital assets, net of accumulated depreciation and related debt. As explained in Note 1, the Authority prepares its financial statements on a cash basis of accounting, therefore this amount is reported at zero on the accompanying financial statements.

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.

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.

Note 8 – Related Party Transactions and Concentrations

The Transportation Authority may receive funds from the Borough of Kutztown; however, in 2020 no funds were received from the Borough of Kutztown.

One customer accounted for 52% of the Authority’s total revenue for 2020.

Note 9 – 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.

KUTZTOWN TRANSPORTATION AUTHORITY
Notes to Financial Statements
Year Ended December 31, 2020

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 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.

Note 10 – Subsequent Events

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

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Kutztown Transportation 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 Authority considers these disruptions to be temporary, if it continues, the situation could have an adverse effect on the Authority's future operations.

Management has evaluated subsequent events through September 2, 2021, the date on which the statements were available to be issued.



Members of the Board
Kutztown Transportation 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 Transportation Authority, a component unit of the Borough of Kutztown, as of and for the year ended December 31, 2020, which collectively comprise the Kutztown Transportation Authority's basic financial statements and have issued our report thereon dated September 2, 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kutztown Transportation 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 Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kutztown Transportation 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 Transportation Authority'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 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.

September 2, 2021