

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2006 AND 2005

COLLEGE TOWNSHIP WATER AUTHORITY
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YEARS ENDED DECEMBER 31, 2006 AND 2005

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Independent Auditor's Report

Members of the Authority
College Township Water Authority
State College, Pennsylvania

We have audited the accompanying statements of net assets of College Township Water Authority, Centre County, Pennsylvania (the "Authority") as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Township Water Authority as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 21 is presented for additional analysis and is not a required part of the financial statements. Such information, except the portion captioned "budget-unaudited - cash basis", has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Fire Fall: Jody Cooper, CPA

State College, Pennsylvania
February 5, 2007

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Year Ended December 31, 2006

To the Members of the Authority
College Township Water Authority
State College, Pennsylvania

As management of the College Township Water Authority, (the "Authority"), we offer readers of our basic financial statements this narrative introduction, overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2006. The reader should use the information contained here in conjunction with the additional information contained in the Authority's audited financial statements which begin immediately following this narrative.

Financial Highlights of 2006

1. The balance remaining in the Revenue Fund on 12/20/06, \$256,000, was transferred to the Bond Redemption and Improvement Fund thereby increasing the balance available for redeeming bonds and/or construction projects to \$433,000.
2. The Authority accepted water main extensions measuring 3,465 linear feet of 8" ductile pipe valued at \$187,000 from developers during the year.
3. Construction projects totaling \$389,000 were completed and added to the water system during 2006.
4. During 2006, the Authority received \$87,000 and \$177,000 for water sales and capital repayment, respectively, from the Commonwealth of Pennsylvania pursuant to the terms of the 2003 Water Service Agreement.
5. Unrestricted net assets decreased by \$199,000 during 2006.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the authority is engaged only in business-type activities, its basic financial statements are comprised of two components: 1) proprietary fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Proprietary fund financial statements. The Authority's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, the Authority's operations are accounted for in a manner similar to a private-sector business.

The statements of nets assets present information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. For example, an electric bill for usage during the month of December 2006 is recorded as an expense in 2006 although it may not have been paid until January 2007.

The statements of cash flows differs from the statement of revenues, expenses, and changes in net assets in that it accounts only for transactions that result in cash receipts and cash payments. Cash activities are separated into four distinct categories: 1) operating activities, 2) capital financing activities, 3) non-capital financing activities, and 4) investing activities. This statement assists users in assessing the Authority's ability to pay its bills and the effect on its finances of major transactions during the year.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements such as the Authority's accounting methods and policies.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Analysis of Financial Position

The following condensed statement of net assets shows that at December 31, 2006, total assets exceeded total liabilities by \$2.9 million, an increase of \$194,000 over the prior year.

	Net Assets at December 31,		
	2006	2005	Change
Current assets	\$ 398,089	\$ 475,606	\$(77,517)
Restricted assets	1,539,655	1,614,733	(75,078)
Other non-current assets	659,976	840,437	(180,461)
Capital assets - net	<u>9,223,052</u>	<u>8,796,492</u>	<u>426,560</u>
 Total Assets	 11,820,772	 11,727,268	 93,504
 Current liabilities	 471,330	 464,892	 6,438
Bonds payable - net	<u>8,426,578</u>	<u>8,533,511</u>	<u>(106,933)</u>
 Total Liabilities	 <u>8,897,908</u>	 <u>8,998,403</u>	 <u>(100,495)</u>
 Net Assets	 <u>\$ 2,922,864</u>	 <u>\$ 2,728,865</u>	 <u>\$ 193,999</u>

The decrease in current and restricted assets in 2006 primarily as a result of the use of those assets for maintaining and upgrading the water system. Contract receivable, which accounts for the majority of the other non-current assets classification, decreased by \$157,000 as a result of payments received from the Commonwealth of Pennsylvania ("Commonwealth") pursuant to the Water Service Agreement.

Net capital assets increased not only as a result of projects funded with Bond Redemption and Improvement Fund and Construction Fund monies but also from capitalizing the value of the water main extensions contributed by developers.

The decrease in total liabilities is primarily the result of the net decrease in bonds payable attributed to the net of the amortization of premium and the \$175,000 principal payment.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Analysis of Operating Results

The following condensed statement of revenues, expenses, and changes in net assets provides a comparison of the major categories of revenues and expenses recognized during the year.

	<u>Changes in Net Assets</u>		
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Operating revenues	\$ 1,278,960	\$ 1,312,712	\$(33,752)
Operating expenses	<u>931,073</u>	<u>861,328</u>	<u>69,745</u>
Operating income	347,887	451,384	(103,497)
Non-operating revenues and expense	(<u>153,888</u>)	<u>52,270</u>	(206,158)
Changes in net assets	\$ <u>193,999</u>	\$ <u>503,654</u>	\$(<u>309,655</u>)

Even though the Authority experienced an increase in metered revenue for 2006 totaling \$39,000, an overall decrease in water operating revenue was primarily the result of slowed demand by the Department of Corrections. Water usage billings to the Department of Corrections decreased by \$86,000.

The increased cost for labor, water line and equipment repairs, tools, business insurance, health insurance, and other employee benefits account for the majority of the increase in operating expenses.

A substantial decrease in connection fee revenue together with a decrease in the length and value of water lines contributed to the Authority pursuant to water main extension agreements are the primary driving forces behind the drop in non-operating revenues from 2005.

Statement 33 of the Governmental Accounting Standards Board requires that physical assets, such as water main extensions, contributed to the Authority by developers be treated as non-operating revenue. The Authority recorded \$187,000 and \$363,000 of such non-operating revenue during the years ended December 31, 2006 and 2005, respectively.

The difference in the levels of such activity from 2005 to 2006 directly impacts the overall changes in the Authority's net assets. These contributions are also associated with an expansion of the Authority's customer base.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets

At December 31, 2006, the Authority had invested \$9.2 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$2.1 million accumulated depreciation. This amount represents a net increase (including additions and dispositions) of \$427,000 over the prior year. Significant additions included 1) Developer water main extensions - \$187,000, 2) Waterline installation and upgrades - \$374,000, 3) Tools and equipment - \$56,000, 4) Water Source Improvements - \$15,000.

The Authority plans to continue investing in its water system in 2007. Budgeted improvements total \$297,000 with funding primarily to come from funds available in the Bond Redemption and Improvement Fund.

Please refer to notes A and C to the financial statements for additional information on the Authority's investment in capital assets and infrastructure.

Long-Term Debt Activity

During 2003, the Authority took advantage of a low interest rate environment and issued its Water Revenue Bonds, Series of 2003 in the aggregate amount of \$9,995,000. The proceeds from this issue were used to advance refund the outstanding bonds from the Series of 1999 issue and to provide capital for essential water system improvements.

The 2003 bonds are secured by a Trust Indenture. This document limits the amount of unsecured debt the Authority may incur to \$1,250,000. As of the end of the year, there had been no additional borrowings. More importantly however, the Indenture requires annual revenues from the water system to be equal to or greater than the combined total of 100% of the year's actual administrative and operating expenses and 110% of that year's debt service requirement. This requirement is perhaps the single greatest driving factor in establishing the rates for water service. The supplemental schedule found on page 21 of this report illustrates the Authority's compliance with this provision of the Indenture.

At December 31, 2006, \$9,440,000 of the original par value remained outstanding following a principal payment of \$175,000. The Trust Indenture required transfers to the Debt Service Fund totaling \$556,411 for the payment of bond interest and principal. Such transfers were made in the amounts required and on schedule.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Note D contains financial information relative to funds held by the trustee as required by the Trust Indenture. Notes E, F, and G contain additional information we consider to be essential to understanding the structure, terms, and financial implications of the Authority's long-term debt.

Potentially Significant Matters

The University Area Joint Authority is currently constructing a transmission line that will transmit reuse water for discharge at the upper reaches of Slab Cabin Run. Potentially, both current and prospective customers of the Authority may be able to use the reuse water instead of the water provided by the Authority. An agreement currently exists which prevents a revenue loss by the Authority if this situation occurs.

The Authority serves as a back-up water supply to the State Correctional Institution at Rockview. Weather has a direct impact on Rockview's purchases of water during the year.

We are not aware any other facts, decisions, or conditions that are expected to have a significant effect on the Authority's financial position or operating results.

Overall Financial Analysis

We believe that the overall financial position of the Authority has improved. The substantial increase in net assets is but one indication. In addition, the number of customers and water system revenues has increased over the prior year and this trend is expected to continue for the foreseeable future.

Request for Information

This financial report is designed to provide an overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Finance Director at 1481 East College Avenue, State College, PA 16801.

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF NET ASSETS

December 31,

2006

2005

ASSETS

Current assets:

Cash	\$ 92,994	\$ 125,649
Trade accounts receivable, net	264,735	296,309
Accrued interest and other receivables	11,110	24,398
Material and supplies	<u>29,250</u>	<u>29,250</u>
Total current assets	398,089	475,606

Non-current Assets:

Restricted assets held by trustee	1,539,655	1,614,733
Contract receivable	421,610	578,965
Unamortized bond costs, net	<u>238,366</u>	<u>261,472</u>
	2,199,631	2,455,170

Capital Assets:

Water Utility Plant in service, at cost	11,276,993	10,622,006
Less accumulated depreciation	(2,122,562)	(1,868,532)
Net utility plant	9,154,431	8,753,474
Construction in progress	<u>68,621</u>	<u>43,018</u>
Total utility plant	<u>9,223,052</u>	<u>8,796,492</u>
Total assets	<u>11,820,772</u>	<u>11,727,268</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	87,778	78,995
Due to College Township	15,345	19,848
Accrued interest	188,207	191,049
Current portion of long term debt	<u>180,000</u>	<u>175,000</u>
Total current liabilities	471,330	464,892

Non-current Liabilities:

Bonds payable, net of unamortized premium	<u>8,426,578</u>	<u>8,533,511</u>
Total liabilities	<u>8,897,908</u>	<u>8,998,403</u>

NET ASSETS:

Invested in capital assets, net		
of related debt	1,593,395	1,125,571
Restricted for debt service	1,106,761	1,136,851
Restricted for capital outlays	432,894	477,882
Unrestricted	(210,186)	(11,439)
Total net assets	\$ <u>2,922,864</u>	\$ <u>2,728,865</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues (securing revenue bonds):		
Water operating revenues	\$ 1,068,089	\$ 1,114,476
Unmetered water sales and other fees	<u>210,871</u>	<u>198,236</u>
Total operating revenues	1,278,960	1,312,712
Operating expenses:		
Purification system	38,166	48,952
Pumping system, primarily power	107,073	95,900
Storage	7,850	1,253
Maintenance	49,995	31,408
General	155,189	115,778
Office	63,180	53,856
General property	15,503	12,138
Engineering and professional fees	46,314	71,498
Taxes, benefits and insurance	102,882	89,175
Miscellaneous	67,785	64,205
Depreciation and amortization	<u>277,136</u>	<u>277,165</u>
Total operating expenses	<u>931,073</u>	<u>861,328</u>
Operating income	<u>347,887</u>	<u>451,384</u>
Non-operating revenues/(expense):		
Interest expense	(449,478)	(455,471)
Investment income	82,433	68,830
Tap and connection fees	<u>25,947</u>	<u>75,305</u>
	<u>(341,098)</u>	<u>(311,336)</u>
Capital contributions	<u>187,210</u>	<u>363,606</u>
Net income	193,999	503,654
Net assets, beginning	<u>2,728,865</u>	<u>2,225,211</u>
Net assets, ending	\$ <u>2,922,864</u>	\$ <u>2,728,865</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,349,561	\$ 1,313,007
Cash payments to suppliers for goods and services	(649,657)	(616,768)
Net cash provided by operating activities	<u>699,904</u>	<u>696,239</u>
Cash flows from capital and related financing activities:		
Payments for water utility plant	(493,380)	(107,249)
Interest paid on bonds and capital leases	(379,253)	(382,955)
Capital contributions	157,355	151,277
Principal paid on bond maturities	(175,000)	(170,000)
Net cash used in capital and related financing activities	<u>(890,278)</u>	<u>(508,927)</u>
Cash flows from investing activities:		
Purchase of investments	--	(164,217)
Investment earnings	82,641	66,914
Proceeds from investments	<u>75,078</u>	<u>--</u>
Net cash provided by/(used in) investing activities	<u>157,719</u>	<u>(97,303)</u>
Net increase/(decrease) in cash	(32,655)	90,009
Cash balance, beginning of year	<u>125,649</u>	<u>35,640</u>
Cash balance, end of year	\$ <u><u>92,994</u></u>	\$ <u><u>125,649</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 347,887	\$ 451,384
Tap and connection fees	25,947	75,305
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	254,030	253,361
Amortization of bond costs	23,106	23,804
Change in assets and liabilities:		
Decrease/(increase) in receivables	44,654	(75,010)
Increase/(decrease) in accounts payable and accrued expenses	8,783	(34,143)
(Decrease)/increase in amounts due to related parties	<u>(4,503)</u>	<u>1,538</u>
Net cash provided by operating activities	\$ <u><u>699,904</u></u>	\$ <u><u>696,239</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

A. Summary of Significant Accounting Policies

Basis of Presentation - The College Township Water Authority (the "Authority") was formed by resolution of the Council of the Township of College, Centre County, Pennsylvania adopted on May 2, 1996 pursuant to the Pennsylvania Municipality Authorities Act of 1945.

Effective as of May 20, 1996, the Authority acquired a majority of the voting rights of the common stock of Lemont Water Co. which has since been liquidated.

Description of business - The Authority supplies water to residential and business customers in College Township, Pennsylvania. All of the Authority's activities are located in Central Pennsylvania. Water produced is treated with a sequesterant and is disinfected with chlorine. The wells provide water to the customers through 26 miles of underground distribution piping.

During 2004, the Authority placed in service its second well facility. The "Rogers" Well is permitted to pump up to 1,800 gallons per minute (gpm). The "Spring Creek Park" well, placed in service in 2000, is permitted to pump up to 1,700 gpm. Thus, the Authority has two independent sources for its total expected usage. Each well is currently configured to pump at 1,250 gpm and the Authority's overall permitted withdrawal rate is limited to a monthly average of 1.8 million gallons per day.

During 2004, the Authority put two major additions on line. The extension of the system connection to the State Correctional Institution at Rockview was placed on line beginning in July, 2004 and the Authority began billing Rockview for their usage.

Water utility plant - All additions to the water utility plant are recorded at cost when an asset is placed in service. Costs incurred during the construction of an asset are accumulated and reported as construction in progress until the asset is placed in service.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed, the asset account and related depreciation account are reduced and any gain or loss is included in operations.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

A. Summary of Significant Accounting Policies (continued)

Accounts receivable - Accounts receivable are shown net of allowances for uncollectible amounts. At December 31, 2006 and 2005, allowances of \$5,167 and \$5,663, respectively, had been provided for such items.

Inventory - Inventories of supplies and materials are stated at the lower of cost or market value based on the first-in, first-out method.

Investments - Investments are recorded at amortized cost. Included in other receivables at December 2006 and 2005 are \$11,110 and \$11,318, respectively of accrued interest or dividends on the assets held by the Trustee.

Depreciation - Assets are depreciated over estimated useful lives using the straight-line method.

Revenue recognition - Revenue is generally recognized from water sales when the meters are read. Meters are read on a quarterly basis for regular customers. Rates are determined based on a fee schedule approved by the Authority's Board. Un-billed receivables are recorded as revenues based upon pro-rata calculations, from the date of the last meter reading to the financial reporting date.

Interest Expense - Interest costs incurred on bonds and loans are capitalized as part of the cost of the constructed project. Interest costs on borrowings for construction are capitalized as work progresses until completion of the project. The interest cost on bonds payable is netted against interest earned on the invested bond proceeds. The net rate applied during 2005 was approximately 3.5%.

Income Tax Expense - The Authority is exempt from federal and state income tax under the Municipality Authorities Act of 1945.

Contributions in aid of construction - The Authority receives property additions from developers and customers to extend its service territory. These are typically constructed by the third party contractors with the Authority's supervision.

The contributed assets are then depreciated over their useful life.

Cash and cash equivalents - For the purpose of the statement of cash flows, the Authority considers as cash, checking and demand accounts at banks. Funds held by the Trustee under the terms of the Trust Indenture regarding the Water Revenue Bonds are considered investments, regardless of the type of financial instrument used for investment.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

A. Summary of Significant Accounting Policies (continued)

Credit risk - Cash balances not secured by FDIC insurance are collateralized as provided under Pennsylvania Act 72, whereby banks pledge collateral with a market value equal or exceeding the total of its public funds and place the collateral with a third party such as the Federal Reserve Bank. Cash balances of \$100,000 are FDIC insured. The remaining balance is secured as described above.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Actual results will differ.

B. Receivables

Current:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Interest Receivable	\$11,110	\$ 11,318
Grant Receivable - Penn DOT	--	<u>13,080</u>
Total Accrued Interest and Other Accounts Receivable	<u>\$11,110</u>	<u>\$ 24,398</u>

Non-Current:

During 2003, the Authority entered into an agreement with the Pennsylvania Department of Corrections to extend a water line to provide service to the State Correctional Institution at Rockview. The costs incurred to connect SCI-Rockview are being repaid by the State, with interest, over a five year period beginning July, 2004.

The Rockview contract receivable includes construction engineering, financing and other costs totaling \$803,675. Principal payments were \$157,356 and \$151,277 for the years ended December 31, 2006 and 2005, respectively.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

B. Receivables (continued)

The rate of interest is the same as the rate paid by the Authority on its 2003 Bond Issue or 3.946%. In addition, the agreement provides for SCI-Rockview to purchase (or pay for) at least 50 million gallons of water annually at agreed-upon rates, which rates are fixed for five years ending June 2009.

C. Water Utility Plant

Water utility plant is made up of contributed property and purchased or constructed property as follows:

	Useful Life In Years	December 31,	
		2006	2005
Land and rights		\$ 205,960	\$ 205,960
Land improvements	15	<u>11,468</u>	<u>11,468</u>
Land, rights and improvements		217,428	217,428
Structures and Improvements:			
Distribution reservoirs, tanks and standpipes	20-60	338,879	326,959
Power and pumping structures	20-35	321,559	321,559
Wells and springs	40	<u>2,854,129</u>	<u>2,838,927</u>
Structures and improvements		3,514,567	3,487,445
Tangible Plant:			
Main and accessories	50	6,880,663	6,319,755
Meters	10-20	278,381	268,025
Electric pumping equipment	10-20	101,285	101,285
Transportation equipment	5-7	158,128	124,350
Tools and work equipment	15	43,827	32,062
Office furniture and equipment	3-7	57,484	57,484
Other power pumping equipment	10	<u>25,230</u>	<u>14,172</u>
Tangible plant		<u>7,544,998</u>	<u>6,917,133</u>
Total		11,276,993	10,622,006
Less accumulated depreciation		(<u>2,122,562</u>)	(<u>1,868,532</u>)
Net Utility Plant		\$ <u>9,154,431</u>	\$ <u>8,753,474</u>

Capitalized interest expense for construction in progress during 2005 was \$1,906. There were no significant dispositions.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

D. Restricted Assets Held by Trustee

Under the terms of the Trust Indenture, the Authority has placed certain funds on deposit with the Trustee as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Construction Fund	\$ --	\$ 37,840
Revenue Fund	--	32,524
Debt Service Fund	368,206	366,049
Debt Service Reserve Fund	738,555	738,278
Bond Redemption and Improvement Fund	<u>432,894</u>	<u>440,042</u>
	<u>\$1,539,655</u>	<u>\$1,614,733</u>

Investments held in the funds consist of:

Federated Treasury Obligation Fund	\$ 790,641	\$ 865,718
Certificates of Deposit	200,000	200,000
U.S. Treasury Notes	<u>549,014</u>	<u>549,015</u>
	<u>\$1,539,655</u>	<u>\$1,614,733</u>

All assets are restricted as to their use, pursuant to the Trust Indentures. Certificates of deposit are FDIC insured.

The funds other than U.S. Treasury Notes are considered uncollateralized under the guidelines of the Government Accounting Standards Board. The Federated fund is AAA rated and invests only in U.S. Government or government agency securities and repurchase agreements backed by the same.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

E. Unamortized Bond Costs

In connection with the issuance of its Water Revenue Bonds, Series of 2003, the Authority incurred certain costs, and discounts were allowed, to compensate the underwriter (and bondholders).

The significant components of these costs at December 31, 2006 are:

Insurance and other issuance costs, net	\$ 194,783
Original issue premium	(14,852)
Underwriter's discount	<u>134,027</u>
Total costs and related expenses	\$ <u>313,958</u>

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$23,106 and \$23,804 for the years ended December 31, 2006 and 2005, respectively. Accumulated amortization was \$75,592 and \$52,486, respectively.

F. Bonds Payable

On November 1, 2003, the Authority issued \$9.995 million in Water Revenue Bonds, Series of 2003 with an average interest rate of 3.946% to advance refund \$7.055 million of outstanding 1999 Series Bonds with an average interest rate of 6.02%. The net proceeds of \$9,660,912 (after payment of \$334,088 in underwriting fees, insurance, and other issuance costs) plus an additional \$610,230 of 1999 debt service reserve fund monies were used to purchase U.S. government securities totaling \$7,988,266. These securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 series bonds. As a result, the 1999 series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets as of December 31, 2003.

The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,072,431. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to interest expense through the year 2027 using the effective-interest method. The Authority completed the advance-refunding to finance approximately \$1,677,000 of additional construction improvements and extensions of the water system. The advance-refunding reduced the Authority's total debt service payments over the next twenty-seven (27) years by \$1,317,565 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$433,850.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

F. Bonds Payable (continued)

Bonds Payable consist of the following:

	December 31,	
	2006	2005
Water Revenue Bonds	\$ 9,440,000	\$ 9,615,000
Less Current Portion	(180,000)	(175,000)
Less Unamortized premiums, net of accumulated amortization of \$239,049 and \$165,982 at December 31, 2006 and 2005	(833,422)	(906,489)
	<u>\$ 8,426,578</u>	<u>\$ 8,533,511</u>

Total future debt service requirements are as follows:

<u>Due</u> <u>January 1,</u>	<u>Principal</u> <u>Amount</u>	<u>Coupon</u> <u>Interest</u> <u>Rate</u>	<u>Coupon</u> <u>Interest</u>	<u>Total</u> <u>Debt</u> <u>Service</u>
2007	\$ 180,000	3.250%	\$ 376,411	\$ 556,411
2008	185,000	3.250%	370,561	555,561
2009	355,000	3.250%	364,549	719,549
2010	370,000	3.250%	353,011	723,011
2011	380,000	3.250%	340,986	720,986
2012	395,000	3.250%	328,636	723,636
2013	410,000	3.500%	315,799	725,799
2014	425,000	3.500%	301,449	726,449
2015	440,000	3.625%	286,574	726,574
2016	455,000	3.750%	270,624	725,624
2017	475,000	4.000%	253,561	728,561
2018	495,000	4.000%	234,561	729,561
2019	515,000	4.100%	214,761	729,761
2020	535,000	4.125%	193,646	728,646
2021	555,000	4.250%	171,578	726,578
2022	580,000	4.375%	147,990	727,990
2023	615,000	4.500%	122,615	737,615
2024	510,000	4.500%	94,940	604,940
2025	530,000	4.600%	71,990	601,990
2026	560,000	4.600%	47,610	607,610
2027	<u>475,000</u>	4.600%	<u>21,850</u>	<u>496,850</u>
	<u>\$ 9,440,000</u>		<u>\$ 4,883,702</u>	<u>\$ 14,323,702</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

F. Bonds Payable (continued)

Bonds maturing are subject to mandatory sinking fund installments required to be made annually.

Interest payments on the bonds are payable to bondholders on July 1st and January 1st of each year.

The bonds are subject to a Trust Indenture (the "Indenture") dated as of November 1, 2003 between the Authority and Omega Bank, N.A. as Trustee. The Indenture specifies the terms and conditions for the security and repayment of the bonds as well as the use of the bond proceeds. As more fully set forth therein:

- Bond proceeds can be used for: a) the acquisition and construction of additions, extensions and improvements to the water system, b) the payment of outstanding indebtedness and the initial costs of the bonds and, c) making certain initial deposits with the Trustee.
- The bonds are secured by all receipts and revenues of the water system, earnings on and the initial deposits made with the Trustee and the financial guaranty of Financial Security Assurance, Inc.
- A series of accounts have been established for the application of monies required to be held. These include:

The Construction Fund to hold the net proceeds of the bond issue while the Authority constructs the various capital additions and improvements to the water system.

The Revenue Fund into which the receipts and revenues of the water system are deposited, within 20 days of receipt by the Authority.

The Debt Service Fund into which deposits to pay the amount of principal maturities and coupon interest payments are required on or before June 20 or December 20 for amounts due on the ensuing July 1 and January 1, respectively.

The Debt Service Reserve Fund into which an initial deposit of \$737,625 was made to further secure the bonds, representing an amount equal to the highest debt service requirement in any one year.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

F. Bonds Payable (continued)

The Bond Redemption and Improvement Fund to hold accumulated reserves for operations, improvement of the water system and/or early retirement of the bonds payable, at the discretion of the Authority.

Under the Indenture, the Authority covenants to maintain water rates and charges which, together with other receipts and revenues, are sufficient to fund: a) administrative expenses; b) operating expense, and, c) 110% of the debt service requirements, plus any other mandatory payments.

The Authority is permitted additional unsecured debt up to \$1,250,000 provided no event of default exists at that time, and if other funds are not available. Additional bonds may also be issued under certain circumstances.

G. Statement of Cash Flows

For the years ending December 31, 2006 and 2005, the Authority paid interest of \$379,253 and \$382,955, respectively.

H. Related Party Transactions

During 2006 and 2005 the Authority paid College Township \$67,056 and \$64,044, respectively, for the oversight of its administrative, financial and operational activities. College Township also serves as the common paymaster for all employees. Costs of the employees hired for, or assigned to Authority operations are billed at actual costs and reimbursed by the Authority.

I. Commitments and Contingencies

The Authority has an agreement with the Pennsylvania State University, whereby it can purchase up to one million gallons of water per day on an emergency basis.

COLLEGE TOWNSHIP WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND DEBT SERVICE-
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2006

	<u>Actual</u>	Budget - <u>Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$1,278,960	\$1,244,116	\$ 34,844
Operating Expenses:			
Purification system	38,166	45,000	(6,834)
Pumping system, primarily power	107,073	110,725	(3,652)
Storage	7,850	2,325	5,525
Maintenance	49,995	42,500	7,495
General	155,189	161,649	(6,460)
Office	63,180	66,227	(3,047)
General property	15,503	19,950	(4,447)
Engineering and professional fees	46,314	52,000	(5,686)
Taxes, benefits and insurance	102,882	100,388	2,494
Miscellaneous	<u>67,785</u>	<u>69,556</u>	<u>(1,771)</u>
Total operating expenses	<u>653,937</u>	<u>670,320</u>	<u>(16,383)</u>
Net operating income	625,023	573,796	51,227
Other Receipts and Revenues:			
Capital recovery - SCI-Rockview	157,356	157,356	--
Tap and connection fees	25,947	20,000	5,947
Investment income	<u>82,433</u>	<u>59,220</u>	<u>23,213</u>
	<u>265,736</u>	<u>236,576</u>	<u>29,160</u>
Total available for debt service	890,759	810,372	80,387
Debt service requirements:			
Interest expense	376,411	376,411	--
Principal repayments	<u>180,000</u>	<u>180,000</u>	<u>--</u>
Total debt service	<u>556,411</u>	<u>556,411</u>	<u>--</u>
Available for contingencies and capital improvements	\$ <u>334,348</u>	\$ <u>253,961</u>	\$ <u>80,387</u>
Ratio of total available for debt service to debt service	<u>160.1%</u>	<u>145.7%</u>	<u>14.4%</u>

Note: Depreciation, amortization, and items of accretion are omitted from this presentation.