

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

COLLEGE TOWNSHIP WATER AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>PAGE</u> |
|-----------------------------------------------------------------------|-------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 9 |
| Financial Statements: | |
| Statements of Net Assets | 10 |
| Statements of Revenues, Expenses and Changes in Net Assets | 11 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements | 13 - 20 |
| Supplementary Schedule: | |
| Schedule of Revenues, Expenses and Debt Service- Budget vs. Actual | 21 |

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, 2011 and 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fiore Fedeli Snyder Carothers, LLP

State College, Pennsylvania
April 20, 2012

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2011 and 2010

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, 2011. 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 2011

1. Net assets increased by \$66,000.
2. Negotiations are ongoing with UAJA relative to rate reimbursement for new CTWA service area customers utilizing beneficial reuse water.
3. Development of an additional water supply in Oak Hall is underway.

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.

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

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 2011 is recorded as an expense in 2011 although it may not have been paid until January 2012.

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.

Analysis of Financial Position

2011:

The following condensed statement of net assets shows that at December 31, 2011, total assets exceeded total liabilities by \$4.11 million, an increase of \$66,000 over the prior year.

| | <u>Net Assets at December 31,</u> | | |
|--------------------------|-----------------------------------|---------------------|-------------------|
| | <u>2011</u> | <u>2010</u> | <u>Change</u> |
| Current assets | \$ 425,361 | \$ 490,747 | \$(65,386) |
| Restricted assets | 2,773,648 | 2,634,637 | 139,011 |
| Other non-current assets | 416,914 | 463,368 | (46,454) |
| Capital assets - net | <u>10,134,482</u> | <u>9,903,904</u> | <u>230,578</u> |
| Total Assets | 13,750,405 | 13,492,656 | 257,749 |
| Current liabilities | 640,608 | 509,429 | (131,179) |
| Bonds payable - net | <u>8,995,568</u> | <u>8,934,937</u> | <u>(60,631)</u> |
| Total Liabilities | <u>9,636,176</u> | <u>9,444,366</u> | <u>(191,810)</u> |
| Net Assets | <u>\$ 4,114,229</u> | <u>\$ 4,048,290</u> | <u>\$ 65,939</u> |

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

Although the two major items comprising assets, cash and receivables, have decreased from 2010 by \$62,000, the correction of an error by the trustee resulting in a transfer of \$76,000 to the trustee funds and an operating surplus of \$174,000 have contributed to the overall increase of \$258,000 in total assets.

An increase in accrued interest on the 2010 bonds together with amortization of the premium, which increases the amount shown as bonds payable, account for substantially all the increase in total liabilities by \$192,000.

Analysis of Financial Position

2010:

The following condensed statement of net assets shows that at December 31, 2010, total assets exceeded total liabilities by \$4.05 million, an increase of \$71,000 over the prior year.

| | <u>Net Assets at December 31,</u> | | |
|--------------------------|-----------------------------------|---------------------|-------------------|
| | <u>2010</u> | <u>2009</u> | <u>Change</u> |
| Current assets | \$ 490,747 | \$ 404,733 | \$ 86,014 |
| Restricted assets | 2,634,637 | 1,614,459 | 1,020,178 |
| Other non-current assets | 463,368 | 173,525 | 289,843 |
| Capital assets - net | <u>9,903,904</u> | <u>10,126,391</u> | <u>(222,487)</u> |
| Total Assets | 13,492,656 | 12,319,108 | 1,173,548 |
| Current liabilities | 509,429 | 619,866 | (110,437) |
| Bonds payable - net | <u>8,934,937</u> | <u>7,721,622</u> | <u>1,213,315</u> |
| Total Liabilities | <u>9,444,366</u> | <u>8,341,488</u> | <u>1,102,878</u> |
| Net Assets | <u>\$ 4,048,290</u> | <u>\$ 3,977,620</u> | <u>\$ 70,670</u> |

Total current and restricted assets increased in 2010 primarily as a result of an increase in operating revenue over 2009 and the inclusion of new money for funding capital projects in the 2010 debt issue. The increase in the other non-current asset classification is due to capitalized issuance costs related to the 2010 Bond Series.

The increase in total liabilities is primarily due to the issuance of the 2010 Bond Series and the related retirement of the 2003 Bond Series.

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

Analysis of Operating Results

2011:

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>2011</u> | <u>2010</u> | <u>Change</u> |
| Operating revenues | \$ 1,555,418 | \$ 1,502,680 | \$ 52,738 |
| Operating expenses | <u>1,125,018</u> | <u>1,068,555</u> | (56,463) |
| Operating income | 430,400 | 434,125 | (3,725) |
| Non-operating revenues and (expense) | (<u>364,461</u>) | (<u>363,455</u>) | (<u>1,006</u>) |
| Changes in net assets | \$ <u>65,939</u> | \$ <u>70,670</u> | \$ (<u>4,731</u>) |

A 2.7% increase in the usage rate resulted in an increase in metered revenue by \$35,000. 2011 operating expenses remained at the same level as 2010 with the exception of an increase of \$35,000 in depreciation and amortization. These two factors plus a decrease in interest expense and tap fees, two major components on non-operating revenue/expense resulted in a slightly lower increase in net assets for 2011 compared to 2010.

Analysis of Operating Results

2010:

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>2010</u> | <u>2009</u> | <u>Change</u> |
| Operating revenues | \$ 1,502,680 | \$ 1,337,545 | \$ 165,135 |
| Operating expenses | <u>1,068,555</u> | <u>961,711</u> | <u>106,844</u> |
| Operating income | 434,125 | 375,834 | 58,291 |
| Non-operating revenues and (expense) | (<u>363,455</u>) | <u>12,329</u> | (<u>375,784</u>) |
| Changes in net assets | \$ <u>70,670</u> | \$ <u>388,163</u> | \$ (<u>317,493</u>) |

The Authority experienced an increase in metered revenue for 2010 totaling \$140,000, due largely from increased consumption and a rate increase of 7.7%.

Increases in maintenance, general and office expenses resulted in an overall increase of 12.7% from 2009.

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

The lack of any capital contributions in 2010 drove the decrease in non-operating revenues/(expenses) of \$376,000 from 2009.

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 \$398,000 and zero of such non-operating revenue during the years ended December 31, 2010 and 2009, respectively.

Water Rates

The Authority reviews water rates annually to manage revenues and ensure compliance with Bond Indentures. Water rates per 1,000 gallons of water used are/were as follow:

| | |
|------|--------|
| 2012 | \$5.90 |
| 2011 | \$5.75 |
| 2010 | \$5.60 |
| 2009 | \$5.20 |

Capital Assets

At December 31, 2011, the Authority had invested \$10.1 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$3.5 million accumulated depreciation. Significant additions included 1) Improvements to the East Branch Road main - \$258,000, 2) Upgrades to the Dale/SCP Well - \$95,000 and 3) Purchase of a new pump for the Spring Creek Well - \$61,000.

At December 31, 2010, the Authority had invested \$9.9 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$3.2 million accumulated depreciation. Significant additions included 1) \$19,000 of meters and 2) Purchase of a truck - \$28,800.

The Authority plans to continue investing in its water system in 2012. Budgeted improvements total \$1.13 million with funding primarily to come from funds available in the Construction and Bond Redemption and Improvement Funds. The Authority also plans on spending \$80,000 on various capital assets.

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

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

Long-Term Debt Activity

During 2010, the Authority took advantage of a low interest rate environment and issued its Water Revenue Bonds, Series of 2010 in the aggregate amount of \$9,910,000. The proceeds from this issue were used to retire the outstanding bonds from the Series of 2003 issue and to provide capital for essential water system improvements.

The 2010 bonds are secured by a Trust Indenture. 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 23 of this report illustrates the Authority's compliance with this provision of the Indenture.

At December 31, 2011, \$9,910,000 of the original par value remained outstanding. The Trust Indenture required transfers to the Debt Service Fund totaling \$728,000 for the payment of bond interest and principal. Such transfers were made in the amounts required and on schedule.

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 has constructed a transmission line that will transmit "beneficial 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. Although an agreement currently exists which prevents a revenue loss by the Authority if this situation occurs, negotiations are ongoing relative to rate reimbursement for new CTWA Service area customers wishing to use beneficial reuse water.

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

The Authority will most likely boost its capacity upon completion of the construction of an additional water source in the Oak Hall area of the Authority's service area.

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

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

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, | |
|----------------------------------------------------|----------------------|----------------------|
| | 2011 | 2010 |
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash | \$ 98,474 | \$ 119,672 |
| Trade accounts receivable, net | 296,905 | 337,868 |
| Accrued interest and other receivables | 102 | 4,338 |
| Material and supplies | 28,329 | 27,318 |
| Due from College Township | <u>1,551</u> | <u>1,551</u> |
| Total current assets | 425,361 | 490,747 |
| Non-current Assets: | | |
| Restricted assets held by trustee | 2,773,648 | 2,634,637 |
| Unamortized bond costs, net | <u>416,914</u> | <u>463,368</u> |
| | 3,190,562 | 3,098,005 |
| Capital Assets: | | |
| Water Utility Plant in service, at cost | 13,090,065 | 13,029,354 |
| Less accumulated depreciation | <u>(3,452,903)</u> | <u>(3,151,246)</u> |
| Net utility plant | 9,637,162 | 9,878,108 |
| Construction in progress | <u>497,320</u> | <u>25,796</u> |
| Total utility plant | <u>10,134,482</u> | <u>9,903,904</u> |
| Total assets | <u>13,750,405</u> | <u>13,492,656</u> |
| <u>LIABILITIES</u> | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 71,817 | 72,507 |
| Due to College Township | 655 | 566 |
| Accrued interest | 158,136 | 26,356 |
| Current portion of long term debt | <u>410,000</u> | <u>410,000</u> |
| Total current liabilities | 640,608 | 509,429 |
| Non-current Liabilities: | | |
| Bonds payable, net of unamortized premium | <u>8,995,568</u> | <u>8,934,937</u> |
| Total liabilities | <u>9,636,176</u> | <u>9,444,366</u> |
| <u>NET ASSETS:</u> | | |
| Invested in capital assets, net of related debt | 2,608,972 | 2,867,417 |
| Restricted for debt service | 568,136 | 163,864 |
| Restricted for capital outlays | 614,538 | 510,318 |
| Unrestricted | <u>322,583</u> | <u>506,691</u> |
| Total net assets | \$ <u>4,114,229</u> | \$ <u>4,048,290</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>2011</u> | <u>2010</u> |
| Operating revenues (securing revenue bonds): | | |
| Water operating revenues | \$ 1,279,434 | \$ 1,244,829 |
| Unmetered water sales and other fees | <u>275,984</u> | <u>257,851</u> |
| Total operating revenues | 1,555,418 | 1,502,680 |
| Operating expenses: | | |
| Purification system | 38,353 | 30,145 |
| Pumping system, primarily power | 88,273 | 105,820 |
| Storage | 582 | 3,451 |
| Maintenance | 58,323 | 80,763 |
| General | 193,643 | 175,110 |
| Office | 87,584 | 85,037 |
| General property | 20,683 | 15,740 |
| Engineering and professional fees | 61,547 | 52,318 |
| Taxes, benefits and insurance | 148,422 | 129,650 |
| Miscellaneous | 79,497 | 77,130 |
| Depreciation and amortization | <u>348,111</u> | <u>313,391</u> |
| Total operating expenses | <u>1,125,018</u> | <u>1,068,555</u> |
| <u>Operating income</u> | 430,400 | 434,125 |
| Non-operating revenues/(expense): | | |
| Interest expense | (376,904) | (402,242) |
| Investment income | 4,824 | 6,026 |
| Tap and connection fees | <u>7,619</u> | <u>32,761</u> |
| Sub-total | <u>(364,461)</u> | <u>(363,455)</u> |
| Net income | 65,939 | 70,670 |
| Net assets, beginning | <u>4,048,290</u> | <u>3,977,620</u> |
| Net assets, ending | \$ <u>4,114,229</u> | \$ <u>4,048,290</u> |

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

| | <u>Year Ended December 31,</u> | |
|----------------------------------------------------------------------------------------|--------------------------------|--------------------------|
| | <u>2011</u> | <u>2010</u> |
| Cash flow from operating activities: | | |
| Cash received from customers | \$ 1,604,000 | \$ 1,435,497 |
| Cash payments to suppliers for goods and services | (778,519) | (751,985) |
| Net cash provided by operating activities | <u>825,481</u> | <u>683,512</u> |
| Cash flows from capital and related financing activities: | | |
| Payments for water utility plant | (532,235) | (70,884) |
| Interest paid on bonds and capital leases | (184,493) | (489,077) |
| Proceeds from bond issuance | -- | 9,910,000 |
| Bond issuance costs | -- | (309,863) |
| Principal paid on bond maturities | -- | (8,720,000) |
| Net cash used in capital and related financing activities | <u>(716,728)</u> | <u>(320,176)</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | (139,011) | (1,020,178) |
| Investment earnings | <u>9,060</u> | <u>2,786</u> |
| Net cash used in investing activities | <u>(129,951)</u> | <u>(1,017,392)</u> |
| Net decrease in cash | (21,198) | (13,704) |
| Cash balance, beginning of year | <u>119,672</u> | <u>133,376</u> |
| Cash balance, end of year | \$ <u><u>98,474</u></u> | \$ <u><u>119,672</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating Income | \$ 430,400 | \$ 434,125 |
| Tap and connection fees | 7,619 | 32,761 |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation of water utility plant | 301,657 | 293,369 |
| Amortization of bond costs | 46,454 | 20,022 |
| Change in assets and liabilities: | | |
| Decrease / (increase) in receivables | 40,963 | (99,944) |
| (Increase) / decrease in materials and supplies | (1,011) | 3,466 |
| (Increase) / decrease in accounts payable and accrued expenses | (690) | 600 |
| Increase / (decrease) in amounts due to related parties | <u>89</u> | <u>(887)</u> |
| Net cash provided by operating activities | \$ <u><u>825,481</u></u> | \$ <u><u>683,512</u></u> |

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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.

The Authority has two well facilities. 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.

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.

Accounts receivable - Accounts receivable are shown net of allowances for uncollectible amounts. At December 31, 2011 and 2010, allowances of \$6,572 and \$7,223, respectively, have 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.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

A. Summary of Significant Accounting Policies (continued)

Investments - Investments are recorded at amortized cost. Included in other receivables at December 2011 and 2010 are \$102 and \$4,338, respectively of accrued interest and 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.

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.

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 \$250,000 are FDIC insured. The remaining balance is secured as described above.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

A. Summary of Significant Accounting Policies (continued)

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

| | December 31, | |
|---------------------------------------------------|--------------|------------|
| | 2011 | 2010 |
| Interest Receivable | \$ 102 | \$ 4,338 |
| Accounts Receivable, net | 296,905 | 337,868 |
| Total Accrued Interest and Accounts Receivable | \$297,007 | \$ 342,206 |

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, | |
|--------------------------------------------------|----------------------------|--------------|--------------|
| | | 2011 | 2010 |
| Land and rights | | \$ 213,140 | \$ 213,140 |
| Land improvements | 15 | 11,468 | 11,468 |
| Land, rights and improvements | | 224,608 | 224,608 |
| Structures and Improvements: | | | |
| Distribution reservoirs, tanks and standpipes | 20-60 | 373,429 | 373,429 |
| Power and pumping structures | 20-35 | 359,605 | 321,559 |
| Wells and springs | 40 | 2,854,129 | 2,854,129 |
| Structures and improvements | | 3,587,163 | 3,549,117 |
| Tangible Plant: | | | |
| Main and accessories | 50 | 8,471,398 | 8,466,084 |
| Meters | 10-20 | 351,398 | 334,047 |
| Electric pumping equipment | 10-20 | 110,267 | 110,267 |
| Transportation equipment | 5-7 | 185,340 | 185,340 |
| Tools and work equipment | 15 | 58,375 | 58,375 |
| Office furniture and equipment | 3-7 | 68,509 | 68,509 |
| Other power pumping equipment | 10 | 33,007 | 33,007 |
| Tangible plant | | 9,278,294 | 9,255,629 |
| Total | | 13,090,065 | 13,029,354 |
| Less accumulated depreciation | | (3,452,903) | (3,151,246) |
| Net Utility Plant | | \$ 9,637,162 | \$ 9,878,108 |

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

C. Water Utility Plant (continued)

Capitalized interest expense for construction in progress was not material to 2011 or 2010. There were no significant dispositions of assets in either year.

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:

| | December 31, | |
|--------------------------------------|--------------|--------------|
| | 2011 | 2010 |
| Construction Fund | \$ 735,144 | 1,117,082 |
| Revenue Fund | 127,830 | 89,018 |
| Debt Service Fund | 568,136 | \$ 190,219 |
| Debt Service Reserve Fund | 728,000 | 728,000 |
| Bond Redemption and Improvement Fund | 614,538 | 510,318 |
| | \$ 2,773,648 | \$ 2,634,637 |

Investments held in the funds consist of:

| | | |
|----------------------------------|--------------|--------------|
| U.S Bank Corporate Trust MM Fund | \$ 2,373,648 | 2,234,637 |
| Certificates of Deposit | 400,000 | 400,000 |
| | \$ 2,773,648 | \$ 2,634,637 |

All assets are restricted as to their use, pursuant to the Trust Indenture. While the Trust Indenture restricts the use of assets held, amounts held in the Revenue Fund and Bond Redemption and Improvement Fund are reported in the statements of net assets as "unrestricted" since the Authority has the flexibility to apply these funds to operating expenses, capital repairs or debt service.

The funds are considered uncollateralized under the guidelines of the Government Accounting Standards Board. U.S. Bank Corporate Trust Money Market Fund invests in securities that are compliant with Pennsylvania Act 72. Certificates of deposit are FDIC insured.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

E. Unamortized Bond Costs

In connection with the issuance of its Water Revenue Bonds, Series of 2003 and 2010, the Authority incurred certain costs, and discounts were allowed, to compensate the underwriter (and bondholders).

The significant components of these costs are:

| | <u>December 31,</u> | |
|------------------------------------------------|---------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Insurance and other issuance costs, net - 2003 | \$ 194,783 | \$ 194,782 |
| Original issue premium - 2003 | (14,852) | (14,852) |
| Underwriter's discount - 2003 | 134,027 | 134,027 |
| Insurance and other issuance costs, net - 2010 | 161,047 | 161,047 |
| Original issue discount - 2010 | 6,459 | 6,459 |
| Underwriter's discount - 2010 | <u>142,359</u> | <u>142,359</u> |
| Total costs and related expenses | 623,823 | 623,823 |
| Accumulated amortization - costs | (206,909) | (160,455) |
| Unamortized bond costs, net | \$ <u>416,194</u> | \$ <u>463,368</u> |

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$46,454 and \$20,022 for the years ended December 31, 2011 and 2010, respectively; accumulated amortization was \$206,909 and \$160,455, 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, 2011 AND 2010

F. Bonds Payable (continued)

On December 1, 2010, the Authority issued \$9.91 million in Water Revenue Bonds, Series of 2010 with an average interest rate of 3.066%. The net proceeds of \$9,761,182 (after payment of \$148,818 in underwriting fees, insurance, and other issuance costs) were used to retire \$8.72 million of outstanding 2003 Series Bonds. The remaining funds were placed with a trustee and invested in a Corporate Trust Money Market Fund, these funds are restricted for the future construction projects of the Authority.

Bonds Payable consist of the following:

| | December 31, | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| | 2011 | 2010 |
| Water Revenue Bonds - 2010 | \$ 9,910,000 | \$ 9,910,000 |
| Less Current Portion | (410,000) | (410,000) |
| Less Unamortized premiums, net of accumulated amortization of \$568,039 and \$507,408 at December 31, 2011 and 2010 | (504,432) | (565,063) |
| | <u>\$ 8,995,568</u> | <u>\$ 8,934,937</u> |

Total future debt service requirements are as follows:

| Due January 1, | Principal Amount | Coupon Interest Rate | Coupon Interest | Total Debt Service |
|-------------------|---------------------|----------------------------|--------------------|--------------------------|
| 2012 | 410,000 | 1.00% | 316,272 | 726,272 |
| 2013 | 415,000 | 2.00% | 312,713 | 727,713 |
| 2014 | 420,000 | 2.00% | 303,873 | 723,873 |
| 2015 | 430,000 | 3.00% | 295,473 | 725,473 |
| 2016 | 440,000 | 2.00% | 282,573 | 722,573 |
| 2017 | 450,000 | 2.35% | 273,773 | 723,773 |
| 2018 | 460,000 | 2.60% | 263,198 | 723,198 |
| 2019 | 475,000 | 2.90% | 251,238 | 726,238 |
| 2020 | 485,000 | 3.10% | 237,463 | 722,463 |
| 2021 | 505,000 | 3.30% | 222,428 | 727,428 |
| 2022 | 520,000 | 3.40% | 205,763 | 725,763 |
| 2023 | 535,000 | 3.55% | 188,083 | 723,083 |
| 2024 | 555,000 | 3.65% | 169,090 | 724,090 |
| 2025 | 575,000 | 3.75% | 148,833 | 723,833 |
| 2026 | 600,000 | 3.80% | 127,270 | 727,270 |
| 2027 | 620,000 | 3.85% | 104,470 | 724,470 |
| 2028 | 645,000 | 4.00% | 80,600 | 725,600 |
| 2029 | 670,000 | 4.00% | 54,800 | 724,800 |
| 2030 | 700,000 | 4.00% | 28,000 | 728,000 |
| | <u>\$ 9,910,000</u> | | <u>\$3,865,913</u> | <u>\$ 13,775,913</u> |

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

F. Bonds Payable (continued)

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 December 1, 2010 between the Authority and U.S. Bank National Association 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 Assured Guaranty Municipal Corp.
- 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 \$728,000 was made to further secure the bonds, representing an amount equal to the highest debt service requirement in any one year.

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.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

F. Bonds Payable (continued)

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 \$1,500,000 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, 2011 and 2010, the Authority paid interest of \$184,493 and \$489,077, respectively.

H. Related Party Transactions

During 2011 and 2010 the Authority paid College Township \$77,160 and \$74,820, 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, 2011

| | <u>Actual</u> | <u>Budget- Unaudited- Cash Basis</u> | <u>Variance</u> |
|-----------------------------------------------------------|------------------|----------------------------------------------|---------------------|
| Water System Operating Revenues | \$ 1,555,418 | \$ 1,552,849 | \$ 2,569 |
| Operating Expenses: | | | |
| Purification system | 38,353 | 31,620 | (6,733) |
| Pumping system, primarily power | 88,273 | 105,450 | 17,177 |
| Storage | 582 | 3,300 | 2,718 |
| Maintenance | 58,323 | 46,469 | (11,854) |
| General | 193,643 | 180,650 | (12,993) |
| Office | 87,584 | 87,850 | 266 |
| General property | 20,683 | 21,150 | 467 |
| Engineering and professional fees | 61,547 | 58,500 | (3,047) |
| Taxes, benefits and insurance | 148,422 | 154,050 | 5,628 |
| Miscellaneous | <u>79,497</u> | <u>81,160</u> | <u>1,663</u> |
| Total operating expenses | <u>776,907</u> | <u>770,199</u> | <u>(6,708)</u> |
| Net operating income | 778,511 | 782,650 | (4,139) |
| Other Receipts and Revenues: | | | |
| Tap and connection fees | 7,619 | 25,000 | (17,381) |
| Investment income | <u>4,824</u> | <u>7,500</u> | <u>(2,676)</u> |
| Sub-total | <u>12,443</u> | <u>32,500</u> | <u>(20,057)</u> |
| Total available for debt service | 790,954 | 815,150 | (24,196) |
| Debt service requirements provided: | | | |
| Interest expense | 316,273 | 316,273 | -- |
| Principal repayments | <u>410,000</u> | <u>410,000</u> | -- |
| Total debt service | <u>726,273</u> | <u>726,273</u> | <u>--</u> |
| Available for contingencies and capital improvements | <u>\$ 64,681</u> | <u>\$ 88,877</u> | <u>\$ (24,206)</u> |
| Ratio of total available for debt service to debt service | <u>108.9%</u> | <u>112.2%</u> | <u>(3.3)%</u> |

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

FIORE FEDELI SNYDER CAROTHERS, LLP

Certified Public Accountants and Consultants

Patrick J. Fiore, CPA
Joseph P. Fedeli, CPA
Robert P. Snyder, CPA
John F. Carothers, CPA
David C. Carothers, CPA

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

Members of the Authority
College Township Water Authority
1481 East College Avenue
State College, PA 16801

We have audited the financial statements of the College Township Water Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 2012. 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

Management of the College Township Water Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College Township Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College Township Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College Township Water 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 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.

MEMBERS: AMERICAN AND PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

2013 SANDY DRIVE, SUITE 200 • STATE COLLEGE, PENNSYLVANIA 16803 • (814) 237-8999 • FAX (814) 237-0990

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.

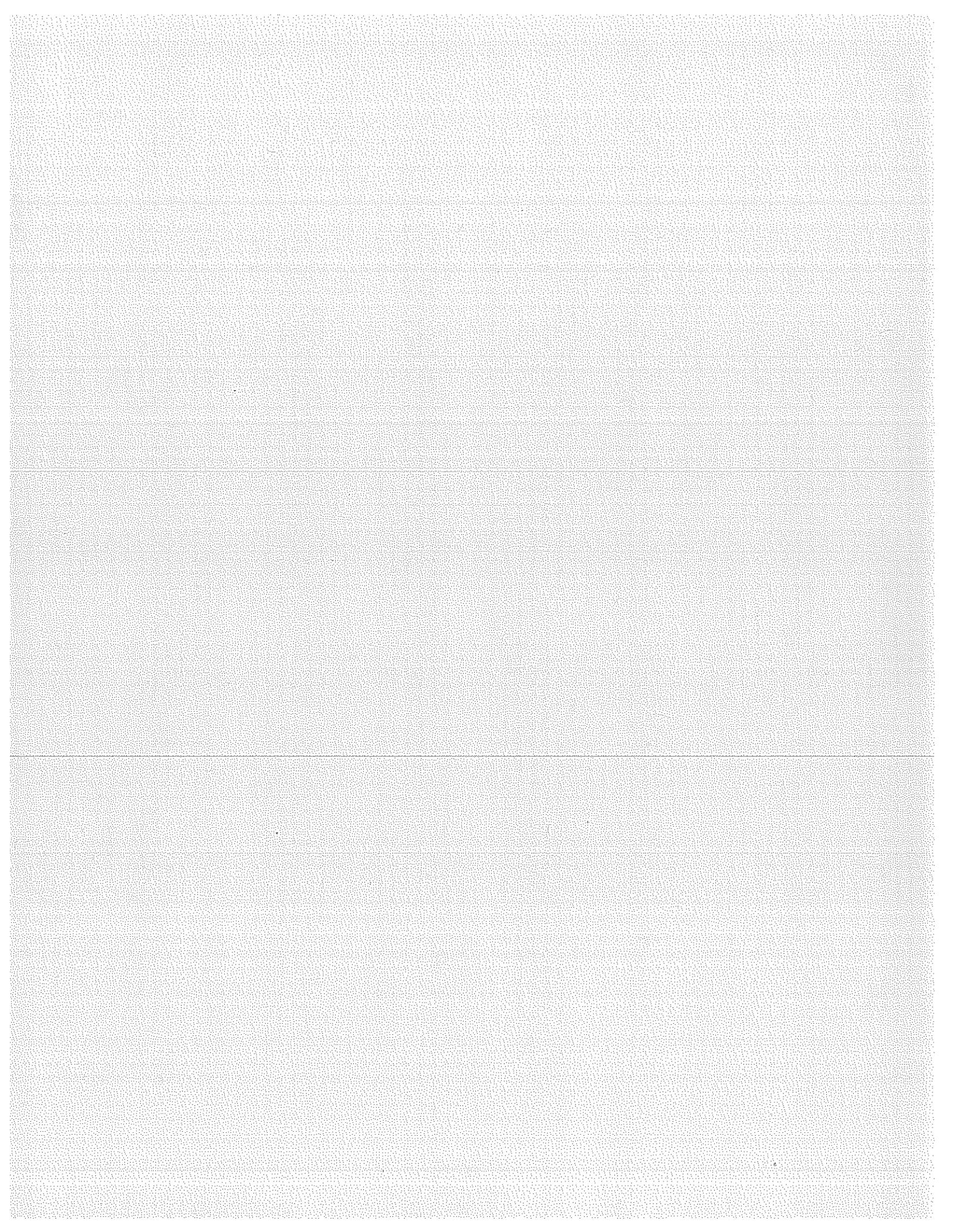
Compliance and Other Matters

A part of obtaining reasonable assurance about whether College Township Water 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Authority and management of the College Township Water Authority and is not intended to be, and should not be used by anyone other than these specified parties.

Fiore Fedeli Snyder Carothers, LLP

State College, Pennsylvania
April 20, 2012



FIORE FEDELI SNYDER CAROTHERS, LLP

Certified Public Accountants and Consultants

Patrick J. Fiore, CPA
Joseph P. Fedeli, CPA
Robert P. Snyder, CPA
John F. Carothers, CPA
David C. Carothers, CPA

April 20, 2012

College Township Water Authority Members
1481 East College Avenue
State College, PA 16801

We have audited the financial statements of the College Township Water Authority for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 20, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 27, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the College Township Water Authority are described in Note A to the financial statements. New accounting policies were adopted to conform with GASB 54, the application of existing policies was not changed during the year ended December 31, 2011. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's

MEMBERS: AMERICAN AND PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

2013 SANDY DRIVE, SUITE 200 • STATE COLLEGE, PENNSYLVANIA 16803 • (814) 237-8999 • FAX (814) 237-0990

knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimates were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 20, 2012.

College Township Water Authority
April 20, 2012
Page Three

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Authority Members and management of the College Township Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Fiore Fedeli Snyder Carothers, LLP