

COLLEGE TOWNSHIP WATER AUTHORITY  
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2012 AND 2011

COLLEGE TOWNSHIP WATER AUTHORITY  
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YEARS ENDED DECEMBER 31, 2012 AND 2011

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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 position of College Township Water Authority, Centre County, Pennsylvania (the "Authority") as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, which collectively comprise the Authority's basic Financial statements as listed in the table of contents, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 of 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 judgement, 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.

MEMBERS: AMERICAN AND PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

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 for overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for your audit opinions.

### *Opinions*

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison information on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The "budget-unaudited-cash basis" amounts on the budgetary comparison has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2013, 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.



State College, Pennsylvania  
February 20, 2013

COLLEGE TOWNSHIP WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Required Supplemental Information)  
Years Ended December 31, 2012 and 2011

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, 2012. 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 2012

1. Net position increased by \$133,000.
2. The Authority has not been able to come to terms 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 continues.
4. As of December 31, 2012, the balance available in the construction fund for system improvements was depleted.

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 net position present information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position present information showing how the Authority's net position 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 2012 is recorded as an expense in 2012 although it may not have been paid until January 2013.

The statements of cash flows differ from the statements of revenues, expenses, and changes in net position 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

2012:

The following condensed statement of net position shows that at December 31, 2012, total assets exceeded total liabilities by \$4.25 million, an increase of \$133,000 over the prior year.

	Net Position at December 31,		
	2012	2011	Change
Current assets	\$ 513,610	\$ 425,361	\$ 88,249
Restricted assets	1,727,156	2,773,648	( 1,046,492)
Other non-current assets	373,766	416,914	( 43,148)
Capital assets - net	<u>10,951,820</u>	<u>10,134,482</u>	<u>817,338</u>
Total Assets	13,566,352	13,750,405	( 184,053)
Current liabilities	680,911	640,608	( 40,303)
Bonds payable - net	<u>8,638,411</u>	<u>8,995,568</u>	<u>357,157</u>
Total Liabilities	<u>9,319,322</u>	<u>9,636,176</u>	<u>316,854</u>
Net Position	<u>\$ 4,247,030</u>	<u>\$ 4,114,229</u>	<u>\$ 132,801</u>

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

A healthy increase in cash from operations was offset by depreciation and amortization, resulting in an overall decrease in total assets. Within the total assets classification, a substantial amount of the decrease in restricted assets was the result of planned water system improvements funded primarily by using funds available for that purpose in the Construction and Bond Redemption and Improvement Funds. This fact, depreciation notwithstanding, also accounts for the comparable increase in Capital Assets.

Total liabilities decreased primarily as a result of the net reduction in long term debt from principal repayment and premium amortization.

Analysis of Financial Position

2011:

The following condensed statement of net position shows that at December 31, 2011, total position exceeded total liabilities by \$4.05 million, an increase of \$71,000 over the prior year.

	Net Position at December 31,		
	2011	2010	Change
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	10,134,482	9,903,904	230,578
Total Assets	13,750,405	13,492,656	257,749
Current liabilities	640,608	509,429	( 131,179)
Bonds payable - net	8,995,568	8,934,937	( 60,631)
Total Liabilities	9,636,176	9,444,366	( 191,810)
Net Position	\$ 4,114,229	\$ 4,048,290	\$ 65,939

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.

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

Analysis of Operating Results

2012:

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

	Changes in Net Position		
	2012	2011	Change
Operating revenues	\$ 1,546,748	\$ 1,555,418	\$( 8,670)
Operating expenses	<u>1,146,336</u>	<u>1,125,018</u>	<u>( 21,318)</u>
Operating income	400,412	430,400	( 29,988)
Non-operating revenues and (expense)	<u>( 267,611)</u>	<u>( 364,461)</u>	<u>96,850</u>
Changes in net position	<u>\$ 132,801</u>	<u>\$ 65,939</u>	<u>\$ 66,862</u>

A slight increase in metered revenue, due in part to a 2.6% increase in the usage rate, was offset by a decrease in miscellaneous revenue. The result was a \$9,000 decrease in operating revenue. This decrease together with a slight increase in operating expense and a \$96,000 increase in water main connection fees resulted in a \$67,000 increase in net position as compared to the prior year.

Analysis of Operating Results

2011:

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

	Changes in Net Position		
	2011	2010	Change
Operating revenues	\$ 1,555,418	\$ 1,502,680	\$ 52,738
Operating expenses	<u>1,125,018</u>	<u>1,068,555</u>	<u>( 56,463)</u>
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 position	<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.

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

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:

2013	\$6.10
2012	\$5.90
2011	\$5.75
2010	\$5.60

Capital Assets

At December 31, 2012, the Authority had invested \$10.95 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$3.7 million accumulated depreciation. Significant additions included 1) Water Meters, \$27,000 2) Various water system improvements, \$478,000 and 3) Service Van, \$26,000.

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.

The Authority will continue to invest in improvements to its water system in 2013 although at a reduced amount as compared with 2012. Budgeted improvements total \$298,000 with \$211,000 of that amount being funded with monies available in the Bond Redemption and Improvement Fund. The remaining amount, \$87,000, will be funded by operating income. As of December 31, 2012, the Construction Fund has been depleted.

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, 2012 and 2011, \$9,500,000 and \$9,910,000, respectively, 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

Beneficial Reuse Water:

The University Area Joint Authority ("UAJA") 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, the Authority and UAJA have not been able to come to terms relative to rate reimbursement for new CTWA Service area customers wishing to use beneficial reuse water.

Failure to come to terms with UAJA and the continued loss of revenue from sales of water by UAJA to its beneficial reuse customers transfers a disproportionate responsibility for funding water system improvements and maintenance to its regular rate paying customers.

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

SCI at Rockview/Benner:

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

The agreement expires June 14, 2014. SCI has the option to renew the contract for a five years by providing written notice no later than sixty days prior to the expiration of the existing term.

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.

Overall Financial Analysis

We believe that the overall financial position of the Authority has improved. The substantial increase in net position 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 REVENUES, EXPENSES AND  
CHANGES IN NET POSITION

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Operating revenues (securing revenue bonds):		
Water operating revenues	\$ 1,289,439	\$ 1,279,434
Unmetered water sales and other fees	<u>257,309</u>	<u>275,984</u>
Total operating revenues	1,546,748	1,555,418
Operating expenses:		
Purification system	26,746	38,353
Pumping system, primarily power	83,211	88,273
Storage	154	582
Maintenance	51,107	58,323
General	212,471	193,643
Office	97,438	87,584
General property	16,151	20,683
Engineering and professional fees	63,732	61,547
Taxes, benefits and insurance	157,385	148,422
Miscellaneous	83,319	79,497
Depreciation and amortization	<u>354,622</u>	<u>348,111</u>
Total operating expenses	<u>1,146,336</u>	<u>1,125,018</u>
Operating income	400,412	430,400
Non-operating revenues/(expense):		
Interest expense	( 370,016)	( 376,904)
Investment income	949	4,824
Tap and connection fees	<u>101,456</u>	<u>7,619</u>
Sub-total	<u>( 267,611)</u>	<u>( 364,461)</u>
Net income	132,801	65,939
Net position, beginning	<u>4,114,229</u>	<u>4,048,290</u>
Net position, ending	\$ <u><u>4,247,030</u></u>	\$ <u><u>4,114,229</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY  
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,651,236	\$ 1,604,000
Cash payments to suppliers for goods and services	( 755,229)	( 778,519)
Net cash provided by operating activities	<u>896,007</u>	<u>825,481</u>
Cash flows from capital and related financing activities:		
Payments for water utility plant	(1,128,812)	( 532,235)
Interest paid on bonds and capital leases	( 314,223)	( 184,493)
Principal paid on bond maturities	( 410,000)	( --)
Net cash used in capital and related financing activities	<u>(1,853,035)</u>	<u>( 716,728)</u>
Cash flows from investing activities:		
Proceeds from/purchase of investments	1,046,492	( 139,011)
Investment earnings	<u>996</u>	<u>9,060</u>
Net cash provides by/(used in) investing activities	<u>1,047,488</u>	<u>( 129,951)</u>
Net increase/(decrease) in cash	90,460	( 21,198)
Cash balance, beginning of year	<u>98,474</u>	<u>119,672</u>
Cash balance, end of year	\$ <u><u>188,934</u></u>	\$ <u><u>98,474</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 400,412	\$ 430,400
Tap and connection fees	101,456	7,619
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	311,474	301,657
Amortization of bond costs	43,148	46,454
Change in assets and liabilities:		
Decrease / (increase) in receivables	3,032	( 40,963)
(Increase)/ decrease in materials and supplies	( 868)	1,011
Decrease in accounts payable and accrued expenses	38,008	690
Decrease in amounts due to related parties	( 655)	( 89)
Net cash provided by operating activities	\$ <u><u>896,007</u></u>	\$ <u><u>825,481</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, allowances of \$12,232 and \$6,572, 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, 2012 AND 2011

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,	
	2012	2011
Interest Receivable	\$ 55	\$ 102
Accounts Receivable, net	293,593	296,905
Total Accrued Interest and Accounts Receivable	\$293,648	\$ 297,007

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,	
		2012	2011
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	359,604	359,605
Wells and springs	40	2,860,842	2,854,129
Structures and improvements		3,593,875	3,587,163
Tangible Plant:			
Main and accessories	50	8,949,353	8,471,398
Meters	10-20	378,453	351,398
Electric pumping equipment	10-20	110,267	110,267
Transportation equipment	5-7	188,760	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		9,786,724	9,278,294
Total		13,605,207	13,090,065
Less accumulated depreciation		( 3,741,372)	( 3,452,903)
Net Utility Plant		\$ 9,863,835	\$ 9,637,162

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

C. Water Utility Plant (continued)

Capitalized interest expense for construction in progress was not material to 2012 or 2011. 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,	
	2012	2011
Construction Fund	\$ --	\$ 735,144
Revenue Fund	79,439	127,830
Debt Service Fund	571,086	568,136
Debt Service Reserve Fund	728,001	728,000
Bond Redemption and Improvement Fund	348,630	614,538
	\$ 1,727,156	\$ 2,773,648

Investments held in the funds consist of:

U.S Bank Corporate Trust MM Fund	\$ 1,472,871	2,373,648
Certificates of Deposit	254,285	400,000
	\$ 1,727,156	\$ 2,773,648

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 position 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, 2012 AND 2011

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:

	December 31,	
	2012	2011
Insurance and other issuance costs, net - 2003	\$ 194,783	\$ 194,783
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	142,359	142,359
 Total costs and related expenses	 623,823	 623,823
Accumulated amortization - costs	(250,057)	(206,909)
Unamortized bond costs, net	\$ 373,766	\$ 416,914

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$43,148 and \$46,454 for the years ended December 31, 2012 and 2011, respectively; accumulated amortization was \$250,057 and \$206,909, 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, 2012 AND 2011

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,	
	2012	2011
Water Revenue Bonds - 2010	\$ 9,500,000	\$ 9,910,000
Less Current Portion	( 415,000)	( 410,000)
Less Unamortized premiums, net of accumulated amortization of \$625,882 and \$568,039 at December 31, 2012 and 2011	( 446,589)	( 504,432)
	<u>\$ 8,638,411</u>	<u>\$ 8,995,568</u>

Total future debt service requirements are as follows:

Due January 1,	Principal Amount	Coupon Interest Rate	Coupon Interest	Total Debt Service
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>\$ 9,500,000</u>		<u>\$3,549,641</u>	<u>\$ 13,049,641</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, 2012 AND 2011

F. Bonds Payable (continued)

Interest payments on the bonds are payable to bondholders on July 1<sup>st</sup> and January 1<sup>st</sup> 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, 2012 AND 2011

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, 2012 and 2011, the Authority paid interest of \$314,223 and \$184,493, respectively.

H. Related Party Transactions

During 2012 and 2011 the Authority paid College Township \$78,960 and \$77,160, 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.

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COLLEGE TOWNSHIP WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND DEBT SERVICE-  
BUDGET VS. ACTUAL  
YEAR ENDED DECEMBER 31, 2012

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,546,748	\$ 1,581,605	\$( 34,857)
Operating Expenses:			
Purification system	26,746	45,000	( 18,254)
Collection system	2,095	1,000	1,095
Pumping system, primarily power	83,211	97,975	( 14,764)
Storage	154	2,150	( 1,996)
Maintenance	51,107	52,600	( 1,493)
General	212,471	195,650	16,821
Office	97,438	90,000	7,438
General property	16,151	22,150	( 5,999)
Engineering and professional fees	63,732	60,200	3,532
Taxes, benefits and insurance	157,385	165,175	( 7,790)
Miscellaneous	<u>81,224</u>	<u>82,960</u>	<u>( 1,736)</u>
Total operating expenses	<u>791,714</u>	<u>814,860</u>	<u>( 23,146)</u>
Net operating income	755,034	766,745	( 11,711)
Other Receipts and Revenues:			
Tap and connection fees	101,456	40,000	61,456
Investment income	<u>949</u>	<u>3,000</u>	<u>( 2,051)</u>
Sub-total	<u>102,405</u>	<u>43,000</u>	<u>59,405</u>
Total available for debt service	857,439	809,745	47,694
Debt service requirements provided:			
Interest expense	312,173	312,173	--
Principal repayments	<u>415,000</u>	<u>415,000</u>	<u>--</u>
Total debt service	<u>727,173</u>	<u>727,173</u>	<u>--</u>
Available for contingencies and capital improvements	<u>\$ 130,266</u>	<u>\$ 82,572</u>	<u>\$ 47,694</u>
Ratio of total available for debt service to debt service	<u>117.9%</u>	<u>111.4%</u>	<u>6.0%</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  
GOVERNMENTAL AUDITING STANDARDS

Independent Auditor's Report

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

We have audited the financial statements of College Township Water Authority 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, which comprise the statement of net position as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered College Township Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of College Township Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of College Township Water Authority's internal control.

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.

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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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As 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.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the College Township Water Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kevin Robert Snyder, CPA*

State College, Pennsylvania  
February 20, 2013

# Additional Report

Required Communications

**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

February 20, 2013

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, 2012 and 2011, and have issued our report thereon dated February 20, 2013. 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 December 31, 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 63, the application of existing policies was not changed during the year ended December 31, 2012. 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

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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 February 20, 2013.

College Township Water Authority  
February 20, 2013  
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