

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2014 AND 2013

COLLEGE TOWNSHIP WATER AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>PAGE</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis Financial Statements:	4 - 10
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14 - 21
Supplementary Schedule:	
Schedule of Revenues, Expenses and Debt Service- Budget vs. Actual	22
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on a Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	23 - 24

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, 2014 and 2013, 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.

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 our 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, 2014 and 2013, 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 April 10, 2015, 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.

Five Gable Judd Cowher, LLP

State College, Pennsylvania
April 10, 2015

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2014 and 2013

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, 2014. 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 2014

1. Oak Hall Well OH-19 was added as a seasonal water source serving the Oak Hall Regional Park.
2. Following a tap fee study, fees to connect to the Authority's water system were increased.
3. The Authority was able to maintain the same rate of \$6.10 per thousand gallons consumed for 2014 as for 2013.
4. The Authority settled a rate dispute and amended its agreement with the UAJA which provides for reimbursement to the Authority for beneficial reuse water supplied by UAJA and used by customers of the Authority.
5. The Authority received notification from the Commonwealth of Pennsylvania of their decision to not negotiate a renewal of the contract to serve as a back-up water supplier to the State Correctional Institution at Rockview which contract had expired in June 2014 and the terms of which were extended until the end of 2014.
6. \$175,000 was made available for capital projects by the Authority exercising its option in the 2010 trust indenture to replace a portion of cash required to be maintained in the Debt Service Reserve Fund with a surety bond or letter of credit.
7. The Authority's revenue exceeded the total of operating expenses and debt service but failed to cover the total of operating expenses and 110% of debt service, as required by the Trust Indenture, by a total of \$23,075 or 1.4%. The 2015 operating budget provided for the required coverage.

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

Overview of the Financial Statements

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

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

The statements of 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.

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 2014 is recorded as an expense in 2014 although it may not have been paid until January 2015.

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.

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

Analysis of Financial Position

2014:

The following condensed statement of net position shows that at December 31, 2014, total assets exceeded total liabilities by \$4.46 million, an increase of \$25,000 over the prior year.

	Net Position at December 31,		
	2014	2013	Change
Current assets	\$ 426,494	\$ 508,619	\$(82,125)
Restricted assets	1,320,050	1,502,797	(182,747)
Other non-current assets	294,232	332,196	(37,964)
Capital assets - net	10,960,661	11,054,560	(93,899)
Total Assets	13,001,437	13,398,172	(396,735)
Current liabilities	647,404	691,365	43,961
Bonds payable - net	7,895,285	8,273,355	378,070
Total Liabilities	8,542,689	8,964,720	422,031
Net Position	\$ 4,458,748	\$ 4,433,452	\$ 25,296

Analysis of Financial Position

2014:

A decrease in receivables from customers accounts for the majority of the decrease in Current Assets.

The replacement of cash available in the Debt Service Reserve Fund by surety as allowed by the trust indenture accounts for the majority of the decrease in Restricted Assets.

Amortization of debt issuance costs accounts for the decrease in Other non-current assets.

Capital Assets increased in book value by approximately \$250,000 but the impact of depreciation of the assets in service resulted in a \$94,000 decrease in the net value of Capital Assets.

The decrease in total liabilities is due to a reduction in accounts payable but more so, the result of the net reduction in long term debt from principal repayment and premium amortization.

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

Analysis of Financial Position

2013:

The following condensed statement of net position shows that at December 31, 2013, total position exceeded total liabilities by \$4.43 million, an increase of \$ 186,000 over the prior year.

	Net Position at December 31,		
	2013	2012	Change
Current assets	\$ 508,619	\$ 513,610	\$ (4,991)
Restricted assets	1,502,797	1,727,156	(224,359)
Other non-current assets	332,196	373,766	(41,570)
Capital assets - net	11,054,560	10,951,820	102,740
Total Assets	13,398,172	13,566,352	(168,180)
Current liabilities	691,365	680,911	10,454
Bonds payable - net	8,273,355	8,638,411	(365,056)
Total Liabilities	8,964,720	9,319,322	(354,602)
Net Position	\$ 4,433,452	\$ 4,247,030	\$ 186,422

A decrease in cashflow from collection of Accounts Receivable together with the spending down of the funds in the Bond Redemption and Improvement Fund on capital projects accounts for the decrease in Restricted Assets.

Capital Assets increased in book value by approximately \$433,000 but the impact of depreciation of the assets in service resulted in an increase of approximately \$100,000.

The decrease in total liabilities is principally the result of the net reduction in long term debt from principal repayment and premium amortization.

Analysis of Operating Results

2014:

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.

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

	Changes in Net Position		
	2014	2013	Change
Operating revenues	\$ 1,550,600	\$ 1,648,484	\$(97,884)
Operating expenses	<u>1,207,662</u>	<u>1,134,502</u>	<u>(73,160)</u>
Operating income	342,938	513,982	(171,044)
Non-operating revenues and (expense)	<u>(317,642)</u>	<u>(327,560)</u>	<u>9,918</u>
Changes in net position	<u>\$ 25,296</u>	<u>\$ 186,422</u>	<u>\$(161,126)</u>

Although a reduction in operating revenue was expected, water consumption came in lower than expected and also the prior year and accounts for the majority of the reduction in operating revenue.

Operating expenses were expected to be lower than the prior year. Operating expenses came in higher than both budget and the prior year due to 1) uncollectible billings from UAJA for beneficial reuse water from the prior years and 2) increased labor and system maintenance costs.

The combined result was a reduction in change in net position of \$161,000 from the prior year.

Analysis of Operating Results

2013:

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		
	2013	2012	Change
Operating revenues	\$ 1,648,484	\$ 1,546,748	\$ 101,736
Operating expenses	<u>1,134,502</u>	<u>1,146,336</u>	<u>(11,834)</u>
Operating income	513,982	400,412	(113,570)
Non-operating revenues and (expense)	<u>(327,560)</u>	<u>(267,611)</u>	<u>(59,949)</u>
Changes in net position	<u>\$ 186,422</u>	<u>\$ 132,801</u>	<u>\$(53,621)</u>

An increase in metered revenue, due in part to a 3.4% increase in the usage rate together with an uptick in revenue from penalties and miscellaneous revenues account for the \$101,000 increase in operating revenue. A nominal net decrease in operating expenses and a \$78,000 decrease in tap and connection fees when combined with the operating revenue increase account for the principal share of the \$53,000 increase in net income from the 2012 calendar year.

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:

2015	\$6.70
2014	\$6.10
2013	\$6.10
2012	\$5.90
2011	\$5.75

Capital Assets

At December 31, 2014, the Authority had invested \$10.96 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$4.4 million accumulated depreciation. Significant additions included 1) Water meters, \$24,000, 2) Development of Oak Hall Water Source, \$169,000 and 3) SCADA system upgrade, \$13,000.

At December 31, 2013, the Authority had invested \$11.05 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$4.1 million accumulated depreciation. Significant additions included 1) Water Meters, \$56,000 and 2) Various water system improvements, \$887,000.

The Authority will continue to invest in improvements to its water system in 2015 although at a reduced amount as compared with 2014. Budgeted improvements total \$97,000 with 100% of that amount being funded with monies available in the Bond Redemption and Improvement Fund.

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, 2014 and 2013, \$8,665,000 and \$9,085,000, respectively, of the original par value remained outstanding. The Trust Indenture required transfers to the Debt Service Fund totaling \$725,472 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

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 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 NET POSITION

	December 31,	
	2014	2013
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 87,713	\$ 87,842
Trade accounts receivable, net	283,872	369,711
Accrued interest and other receivables	12,943	8,281
Material and supplies	28,953	29,269
Prepaid assets	13,013	13,516
Total current assets	426,494	508,619
Non-current Assets:		
Restricted assets held by trustee	1,320,050	1,502,797
Unamortized bond costs, net	294,232	332,196
	1,614,282	1,834,993
Capital Assets:		
Water Utility Plant in service, at cost	15,359,189	14,550,905
Less accumulated depreciation	(4,414,226)	(4,071,701)
Net utility plant	10,944,963	10,479,204
Construction in progress	15,698	575,356
Total utility plant	10,960,661	11,054,560
Total assets	13,001,437	13,398,172
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	69,669	100,384
Due to College Township	--	19,045
Accrued interest	147,735	151,936
Current portion of long term debt	430,000	420,000
Total current liabilities	647,404	691,365
Non-current Liabilities:		
Bonds payable, net of unamortized premium	7,895,285	8,273,355
Total liabilities	8,542,689	8,964,720
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	3,482,609	3,421,404
Restricted for debt service	577,736	571,936
Restricted for capital outlays	189,313	193,701
Unrestricted	209,090	246,411
Total net position	\$ 4,458,748	\$ 4,433,452

See accompanying notes to financial statements

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

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Operating revenues (securing revenue bonds):		
Water operating revenues	\$ 1,285,181	\$ 1,368,543
Unmetered water sales and other fees	265,419	279,941
	<u>1,550,600</u>	<u>1,648,484</u>
 Operating expenses:		
Purification system	34,094	30,033
Pumping system, primarily power	60,637	82,608
Storage	3,937	5,189
Maintenance	54,617	41,129
General	176,135	161,722
Office	124,272	100,853
General property	24,149	23,976
Engineering and professional fees	63,966	52,964
Taxes, benefits and insurance	188,471	180,096
Miscellaneous	86,138	84,033
Depreciation and amortization	391,246	371,899
	<u>1,207,662</u>	<u>1,134,502</u>
 Operating income	342,938	513,982
 Non-operating revenues/(expense):		
Interest expense	(347,402)	(358,817)
Investment income	8,679	7,383
Tap and connection fees	21,081	23,874
	<u>(317,642)</u>	<u>(327,560)</u>
 Net income	25,296	186,422
 Net position, beginning	4,433,452	4,247,030
 Net position, ending	<u>\$ 4,458,748</u>	<u>\$ 4,433,452</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,652,858	\$ 1,589,808
Cash payments to suppliers for goods and services	(880,947)	(770,593)
Net cash provided by operating activities	771,911	819,215
Cash flows from capital and related financing activities:		
Payments for water utility plant	(238,521)	(421,920)
Interest paid on bonds and capital leases	(299,673)	(308,023)
Principal paid on bond maturities	(420,000)	(415,000)
Net cash used in capital and related financing activities	(958,194)	(1,144,943)
Cash flows from investing activities:		
Proceeds from investments	182,747	224,359
Investment earnings	3,407	277
Net cash provided by investing activities	186,154	224,636
Net decrease in cash	(129)	(101,092)
Cash balance, beginning of year	87,842	188,934
Cash balance, end of year	\$ 87,713	\$ 87,842
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 342,938	\$ 513,982
Tap and connection fees	21,081	23,874
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	342,545	330,329
Amortization of bond costs	37,944	41,570
Change in assets and liabilities:		
Decrease / (increase) in receivables	81,177	(82,550)
(Decrease) / (increase) in materials and supplies	(316)	72
Decrease/(increase) in prepaid expense	503	(13,516)
Decrease in accounts payable and accrued expenses	(34,916)	(13,591)
(Decrease) / increase in amounts due to related parties	(19,045)	19,045
Net cash provided by operating activities	\$ 771,911	\$ 819,215

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

	PAGE
A. Summary of Significant Accounting Policies	14-16
B. Receivables	16
C. Water Utility Plant	16
D. Restricted Assets Held by Trustee	17
E. Unamortized Bond Costs	18
F. Bonds Payable	18-21
G. Statement of Cash Flows	21
H. Risk Management	21
I. Related Party Transactions	21
J. Commitments and Contingencies	21
K. Subsequent Events	22

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

A. Summary of Significant Accounting Policies

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.

Reporting Entity - College Township Council appoints all five members of the Authority's board. Council has no further involvement in the affairs of the Authority, no responsibility for its debt and provides no substantial financial operating assistance. The Authority is a separate entity and sets its own rates, adopts its budget and issues debt without the approval of the Township. The Authority is not a component unit of College Township.

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 Spring Creek Well and the Rogers Well are the two sources for the water system. The Spring Creek Park Well has a permitted capacity of 1,700 gpm and is limited to a monthly average withdrawal of 1.80 mgd. The Roger Well has a permitted capacity of 2,890 gpm and is limited to a monthly average withdrawal of 1.80 mgd.

Oak Hall Well OH-19 has been added as a seasonal source serving the Oak Hall Regional Park located in the southeastern part of the distribution system. The well is permitted as a Transient Non-Community System with a permitted capacity of 50 gpm. The well facility is drained and taken out of service between the months of October and April.

Measurement Focus and Basis of Accounting - The Authority accounts for its activities as an Enterprise Fund that is similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Expenses are recorded when a liability is incurred, regardless of the timing of related cash flow.

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.

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

Accounts receivable - Accounts receivable are shown net of allowances for uncollectible amounts. At December 31, 2014 and 2013, allowances of \$3,628 and \$16,393, 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.

Investments - Investments are recorded at amortized cost. Included in other receivables at December 2014 and 2013 are \$13 and \$18, respectively, of accrued interest and dividends on the assets held by the Trustee.

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. Contributed assets are then depreciated over their useful life.

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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.

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

B. Receivables

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Interest Receivable	\$ 12,943	\$ 8,281
Accounts Receivable, net	<u>283,872</u>	<u>369,711</u>
Total Accrued Interest and Accounts Receivable	<u>\$296,815</u>	<u>\$ 377,992</u>

C. Water Utility Plant

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

	<u>Useful Life In Years</u>	<u>December 31,</u>	
		<u>2014</u>	<u>2013</u>
Land and rights	\$	213,140	\$ 213,140
Land improvements	15	<u>11,468</u>	<u>11,468</u>
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	410,534	410,534
Wells and springs	40	<u>4,351,829</u>	<u>3,595,265</u>
Structures and improvements		5,135,792	4,379,228
Tangible Plant:			
Main and accessories	50	9,075,268	9,050,629
Meters	10-20	461,738	434,657
Electric pumping equipment	10-20	113,132	113,132
Transportation equipment	5-7	188,760	188,760
Tools and work equipment	15	58,375	58,375
Office furniture and equipment	3-7	68,509	68,509
Other power pumping equipment	10	<u>33,007</u>	<u>33,007</u>
Tangible plant		<u>9,998,789</u>	<u>9,947,069</u>
Total		15,359,189	14,550,905
Less accumulated depreciation		(4,414,226)	(4,071,701)
Net Utility Plant		<u>\$ 10,944,963</u>	<u>\$ 10,479,204</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Capitalized interest expense for construction in progress was not material to 2014 or 2013. 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,	
	2014	2013
Revenue Fund	\$ --	\$ 9,157
Debt Service Fund	577,736	571,936
Debt Service Reserve Fund	553,001	728,003
Bond Redemption and Improvement Fund	189,313	193,701
	\$ 1,320,050	\$ 1,502,797

Investments held in the funds consist of:

U.S Bank Corporate Trust MM Fund	\$ 761,679	756,549
Certificates of Deposit	558,371	746,248
	\$ 1,320,050	\$ 1,502,797

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 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, 2014 AND 2013

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>2014</u>	<u>2013</u>
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	171,804	161,047
Original issue discount - 2010	6,459	6,459
Underwriter's discount - 2010	142,359	142,359
Total costs and related expenses	634,580	623,823
Accumulated amortization - costs	(340,348)	(291,627)
Unamortized bond costs, net	\$ 294,232	\$ 332,196

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$48,721 and \$41,570 for the years ended December 31, 2014 and 2013, respectively; accumulated amortization was \$340,348 and \$291,627, 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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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.

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:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Water Revenue Bonds - 2010	\$ 8,665,000	\$ 9,085,000
Less Current Portion	(430,000)	(420,000)
Less Unamortized premiums, net of accumulated amortization of \$732,756 and \$680,826 respectively	(339,715)	(391,645)
	\$ 7,895,285	\$ 8,273,355

Total future debt service requirements are as follows:

	Principal	Coupon Interest Rate	Coupon Interest	Total Debt Service
Due January 1,	Amount			
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
	\$ 8,665,000		\$2,933,055	\$ 11,598,055

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, 2014 AND 2013

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, 2014 AND 2013

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.

First Supplemental 2010 Trust Indenture:

In accordance with Section 6.04 of the 2010 Trust Indenture, the Authority replaced \$175,000 of the cash required to be maintained in the Debt Service Reserve Fund (i.e. \$728,000) with a guaranty. Assured Guaranty Municipal Corp. issued a municipal bond debt reserve insurance policy as permitted by Section 6.04 of the 2010 Trust Indenture. The Trustee transferred \$175,000 to the Bond Redemption and Improvement Fund to be used by the Authority to fund construction projects. Thus, the \$728,000 balance required to be maintained in the Debt Service Fund for the protection of the bondholders is comprised of the \$175,000 insurance policy and \$553,000 in cash and investments.

G. Statement of Cash Flows

For the years ending December 31, 2014 and 2013, the Authority paid interest of \$299,673 and \$308,023 respectively.

H. Risk Management

The Authority is exposed to various risks of loss related to liability; theft of, damage to, and destruction of property and other assets; and errors and omissions for which the Authority carries commercial insurance. Settle claims from these risks have not exceeds commercial insurance coverage for the past two years.

I. Related Party Transactions

During 2014 and 2013 the Authority paid College Township \$83,556 and \$81,540, 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.

J. 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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

K. Subsequent events

Subsequent events have been evaluated through April 10, 2015, which is the date the financial statements were available to be issued.

COLLEGE TOWNSHIP WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND DEBT SERVICE-
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2014

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,550,60 0	\$ 1,575,74 4	\$(25,144)
Operating Expenses:			
Purification system	34,094	38,000	(3,906)
Collection system	--	500	(500)
Pumping system, primarily power	60,637	81,350	(20,713)
Storage	3,937	1,150	2,787
Maintenance	54,617	47,600	7,017
General	176,135	156,950	19,185
Office	124,272	104,550	19,722
General property	24,149	19,900	4,249
Engineering and professional fees	63,966	59,700	4,266
Taxes, benefits and insurance	188,471	197,310	(8,839)
Miscellaneous	86,138	86,756	(618)
Total operating expenses	<u>816,416</u>	<u>793,766</u>	<u>22,650</u>
Net operating income	734,184	781,978	(47,794)
Other Receipts and Revenues:			
Tap and connection fees	21,081	20,000	1,081
Investment income	8,679	7,800	879
Sub-total	<u>29,760</u>	<u>27,800</u>	<u>1,960</u>
Total available for debt service	763,944	809,778	(45,834)
Debt service requirements provided:			
Interest expense	295,472	295,472	--
Principal repayments	430,000	430,000	--
Total debt service	<u>725,472</u>	<u>725,472</u>	<u>--</u>
Available for contingencies and capital improvements	<u>\$ 38,472</u>	<u>\$ 84,306</u>	<u>\$(45,834)</u>
Ratio of total available for debt service to debt service	<u>105.3%</u>	<u>111.6%</u>	<u>(6.3) %</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
David C. Carothers, CPA
Stanley N. Roseberry IV, 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, 2014, 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 April 10, 2015.

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.

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

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.



State College, Pennsylvania
April 10, 2015