

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

COLLEGE TOWNSHIP WATER AUTHORITY
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YEARS ENDED DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 9 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 6, 2016, 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.

Fiore Fedeli Supina Conditum, LLP

State College, Pennsylvania
April 6, 2016

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2015 and 2014

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, 2015. 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 2015

1. Net position has increased by \$112,000.
2. Cash has increased by \$639,000 as a result of a debt refinancing in 2015.
3. \$2.3 million is available to fund construction projects as a result of the issuance of the Water Revenue Note, Series of 2015 which refinanced existing debt and provided for construction funds.
4. The Authority will be serving as the water provider to Mount Nittany Medical Center in 2016 and beyond.
5. Water service commenced to the Oak Hall Regional Park in 2015, an integral part of the Centre Region Park System.
6. The Authority increased rates by approximately 10% to compensate for additional costs and the loss of a major customer

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.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 2015 is recorded as an expense in 2015 although it may not have been paid until January 2016.

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

2015:

The following condensed statement of net position shows that at December 31, 2015, total assets exceeded total liabilities by \$4.57 million, an increase of \$111,000 over the prior year.

	Net Position at December 31,		
	2015	2014	Change
Current assets	\$ 1,070,777	\$ 426,494	\$ 644,283
Restricted assets	--	1,320,050	(1,320,050)
Capital assets - net	10,658,631	10,960,661	(302,030)
Total Assets	11,729,408	12,707,205	(977,797)
Current liabilities	96,230	647,404	551,174
Note/Bonds payable - net	7,063,103	7,601,053	537,950
Total Liabilities	7,159,333	8,248,457	1,089,124
Net Position	\$ 4,570,075	\$ 4,458,748	\$ 111,327

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

Refinancing the Water Revenue Bonds, Series of 2010 resulted in a substantial increase in the cash position and also the elimination of restricted assets. Current asset and restricted assets increased and decreased, respectively.

Capital assets increased in book value by approximately \$18,000 but the impact of depreciation on the assets in service resulted in a \$313,000 decrease in the net book value of capital assets.

Refinancing of the Water Revenue Bonds, Series of 2010 with the Water Revenue Note, Series of 2015 lowered interest accrued on the debt and also current maturities of the new debt, accounting for the substantial decrease in current liabilities.

The decrease in the amount reflected for bonds/notes payable is the direct result of refinancing the Water Revenue Bonds, Series of 2010.

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

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.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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.

Analysis of Operating Results

2015:

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.

	<u>Changes in Net Position</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Operating revenues	\$ 1,617,943	\$ 1,550,600	\$ 67,343
Operating expenses	<u>1,205,818</u>	<u>1,207,662</u>	<u>(1,844)</u>
Operating income	412,125	342,938	69,187
Non-operating revenues and (expense)	<u>(300,798)</u>	<u>(317,642)</u>	<u>16,844</u>
Changes in net position	\$ <u><u>111,327</u></u>	\$ <u><u>25,296</u></u>	\$ <u><u>86,031</u></u>

The Authority's rate increase resulted in an overall increase in the operating revenue which consists primarily of metered water sales and standby fire service.

Operating expenses came in lower than both the budgeted amount and 2014's operating expense. A decrease in maintenance, office, and professional costs offset lesser increases in other line items.

The combined impact of lower interest cost and higher revenue from tap and connection fees resulted in a decrease in net non-operating expense.

The net result was an increase in net position of \$86,000 from the prior year.

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

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.

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

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.

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:

2016	\$6.70
2015	\$6.70
2014	\$6.10
2013	\$6.10
2012	\$5.90

Capital Assets

At December 31, 2015, the Authority had invested \$10.66 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$4.7 million accumulated depreciation. Significant additions included 1) Water Meters, \$20,000 and 2) 2015 Truck, \$31,000.

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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.

The Authority will continue to invest in improvements to its water system in 2016 at an increased amount as compared with 2015. Budgeted improvements total \$305,000 with that amount being funded with monies available on hand and through the drawdown of the Water Revenue Note, Series of 2015.

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

Long-Term Debt Activity

During 2015, the Authority refinanced the Water Revenue Bonds, Series of 2010 which resulted in not only savings from the advance-refunding but also access to approximately \$2.3 million for capital project funding.

Please refer to Note E in the notes to financial statements for a comprehensive discussion of the \$10 million Water Revenue Note, Series of 2015 issued on December 8, 2015.

Potentially Significant Matters

The Authority is currently in the process of negotiating a rate(s) to charge Mount Nittany Medical Center for water usage in 2016 and beyond. The effect on expected revenue has not yet been determined.

Other than this matter, 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,	
	2015	2014
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 727,895	\$ 87,713
Trade accounts receivable, net	307,123	283,872
Accrued interest and other receivables	--	12,943
Material and supplies	28,716	28,953
Due from College Twp.	7,043	--
Prepaid assets	--	13,013
	1,070,777	426,494
Non-current Assets:		
Restricted assets held by trustee	--	1,320,050
Capital Assets:		
Water Utility Plant in service, at cost	15,376,904	15,359,189
Less accumulated depreciation	(4,744,438)	(4,414,226)
Net utility plant	10,632,466	10,944,963
Construction in progress	26,165	15,698
Total utility plant	10,658,631	10,960,661
Total assets	11,729,408	12,707,205
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	58,602	69,669
Due to College Township	27,648	--
Accrued interest	9,980	147,735
Current portion of long term debt	--	430,000
Total current liabilities	96,230	647,404
Non-current Liabilities:		
Note payable, net	7,063,103	--
Bonds payable, net	--	7,601,053
Total liabilities	7,159,333	8,248,457
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	3,595,528	3,482,609
Restricted for debt service	--	577,736
Restricted for capital outlays	--	189,313
Unrestricted	974,547	209,090
Total net position	\$ 4,570,075	\$ 4,458,748

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>2015</u>	<u>2014</u>
Operating revenues (securing bonds and note):		
Water operating revenues	\$ 1,328,827	\$ 1,285,181
Unmetered water sales and other fees	289,116	265,419
Total operating revenues	<u>1,617,943</u>	<u>1,550,600</u>
Operating expenses:		
Purification system	29,352	34,094
Pumping system, primarily power	65,386	60,637
Maintenance	55,926	54,617
General	174,290	176,135
Office	97,315	124,272
General property	20,065	24,149
Engineering and professional fees	57,791	63,966
Taxes, benefits and insurance	188,945	188,471
Other	103,658	90,075
Depreciation and amortization	413,090	391,246
Total operating expenses	<u>1,205,818</u>	<u>1,207,662</u>
Operating income	412,125	342,938
Non-operating revenues/(expense):		
Interest expense	(341,351)	(347,402)
Investment income	8,383	8,679
Gain on sale of asset	4,500	--
Tap and connection fees	27,670	21,081
Sub-total	<u>(300,798)</u>	<u>(317,642)</u>
Net income	111,327	25,296
Net position, beginning	<u>4,458,748</u>	<u>4,433,452</u>
Net position, ending	<u>\$ 4,570,075</u>	<u>\$ 4,458,748</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,623,744	\$ 1,652,858
Cash payments to suppliers for goods and services	(886,122)	(880,947)
Net cash provided by operating activities	<u>737,622</u>	<u>771,911</u>
Cash flows from capital and related financing activities:		
Payments for water utility plant	(65,090)	(238,521)
Interest paid on bonds, note and capital leases	(282,573)	(299,673)
Proceeds from issuance of note	7,599,971	--
Principal paid on bond maturities	(8,665,000)	(420,000)
Net cash used in capital and related financing activities	<u>(1,412,692)</u>	<u>(958,194)</u>
Cash flows from investing activities:		
Proceeds from investments	1,299,838	182,747
Investment earnings	15,414	3,407
Net cash provided by investing activities	<u>1,315,252</u>	<u>186,154</u>
Net increase/(decrease) in cash	640,182	(129)
Cash balance, beginning of year	<u>87,713</u>	<u>87,842</u>
Cash balance, end of year	\$ <u><u>727,895</u></u>	\$ <u><u>87,713</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 412,125	\$ 342,938
Tap and connection fees	27,670	21,081
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	363,309	342,545
Amortization of bond costs	49,781	37,944
Loss on disposal of assets, net	10,486	--
Change in assets and liabilities:		
(Increase) / decrease in receivables	(10,308)	81,177
Decrease in materials and supplies	(237)	(316)
Decrease in prepaid expense	13,013	503
Decrease in accounts payable and accrued expenses	(148,822)	(34,916)
Increase in amounts due from related party	(7,043)	--
Increase) / (decrease) in amounts due to related parties	<u>27,648</u>	<u>(19,045)</u>
Net cash provided by operating activities	\$ <u><u>737,622</u></u>	\$ <u><u>771,911</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

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COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 AND 2014

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, 2015 and 2014, allowances of \$7,106 and \$3,628, 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 2015 and 2014 are \$0 and \$13, 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, 2015 AND 2014

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>2015</u>	<u>2014</u>
Accounts Receivable, net	\$307,123	\$ 283,872
Interest Receivable	--	12,943
Total	<u>\$307,123</u>	<u>\$ 296,815</u>

C. Water Utility Plant

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

	<u>Useful</u> <u>Life</u> <u>In Years</u>	<u>December 31</u>	
		<u>2015</u>	<u>2014</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>4,351,829</u>
Structures and improvements		5,135,792	5,135,792
Tangible Plant:			
Main and accessories	50	9,075,268	9,075,268
Meters	10-20	481,945	461,738
Electric pumping equipment	10-20	113,132	113,132
Transportation equipment	5-7	186,268	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>10,016,504</u>	<u>9,998,789</u>
Total		15,376,904	15,359,189
Less accumulated depreciation		(4,744,438)	(4,414,226)
Net Utility Plant		<u>\$ 10,632,466</u>	<u>\$ 10,944,963</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

Capitalized interest expense for construction in progress was not material to 2015 or 2014. 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 had placed certain funds on deposit with the Trustee at December 31, 2014:

Debt Service Fund	\$ 577,736
Debt Service Reserve Fund	553,001
Bond Redemption and Improvement Fund	<u>189,313</u>
	<u>\$ 1,320,050</u>

Investments held in the funds consist of:

U.S Bank Corporate Trust MM Fund	\$ 761,679
Certificates of Deposit	<u>558,371</u>
	<u>\$ 1,320,050</u>

Contemporaneous with the issuance of the Authority's note payable to CNB Bank as discussed below, the Authority's obligations under the Trust Indenture were satisfied.

All assets were restricted as to their use, pursuant to the Trust Indenture. While the Trust Indenture restricted 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.

E. Note Payable

On December 8, 2015, the Authority entered into a loan agreement with CNB Bank for \$10,000,000. The net proceeds of \$7,598,471 at settlement (after payment of \$65,957 in origination fees, legal fees and other issuance costs) were used to advance-refund the outstanding Water Revenue Bonds, Series of 2010 and the related accrued interest. Authority may draw an additional \$2,335,572 on the Note to fund the acquisition or construction of additions, alterations and improvements to the existing water system. The Note bears interest at 1.98% for the first sixty months, then a variable rate equal to the tax free equivalent of the five year Federal Home Loan Advance Rate ("FHLB") rate plus 1.24% subject to a maximum rate of 2.98% for months 61-120,

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

3.68% for months 121-180 and 4.18% for months 181-240. The Note is secured by all receipts and revenues of the water system.

Total annual future debt service requirement, assuming a full \$10,000,000 draw on the Note are as follows:

	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
2016		\$ 111,650	\$ 111,650
2017	\$ 487,700	193,172	680,872
2018	528,700	183,110	711,810
2019	539,100	172,539	711,639
2020	549,800	161,758	711,558
2021	560,700	187,434	748,134
2022	498,400	211,127	709,527
2023	513,300	196,053	709,353
2024	528,600	180,529	709,129
2025	544,300	164,543	708,843
2026	560,600	164,490	725,090
2027	544,400	162,531	706,931
2028	564,500	142,128	706,628
2029	585,300	120,971	706,271
2030	606,800	99,037	705,837
2031	629,100	80,693	709,793
2032	643,500	60,065	703,565
2033	516,300	35,825	552,125
2034	537,900	13,792	551,692
2035	61,000	1,275	62,275
	<u>\$ 10,000,000</u>	<u>\$ 2,642,722</u>	<u>\$ 12,642,722</u>

Unamortized Bond Costs

In connection with the issuance of its Water Revenue Bonds, Series of 2003 and 2010 and the Water Revenue Note, Series of 2015, the Authority incurred certain costs, and discounts were allowed, to compensate the underwriter (and bondholders).

The significant components of these costs are:

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
<u>2015 Note</u>		
Origination fee and other costs	66,927	--
<u>2010 Bonds</u>		
Insurance and other issuance costs	171,804	171,804
Original issuance discount	6,459	6,459
Underwriter's discount	142,359	142,359
<u>2003 Bonds</u>		
Insurance and other issuance costs	194,783	194,783
Original issue premium	(14,852)	(14,852)
Underwriter's discount	134,027	134,027
 Total costs and related expenses	 701,507	 634,580
Accumulated amortization - costs	(390,129)	(340,348)
Unamortized note/bond costs, net	\$ <u>311,378</u>	\$ <u>294,232</u>

These costs are being amortized over the original term of the bonds and the note using the interest method. Amortization was \$51,930 and \$48,721 for the years ended December 31, 2015 and 2014, respectively.

In accordance with FASB Accounting Standards Update 2015-03 the Authority presents its long term obligations net of associated unamortized premiums and issuance costs. Prior year reporting has been changed to conform with current year presentation.

Long term debt obligations consist of the following:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Water Revenue Note - 2015	\$ 7,665,398	\$ --
Less unamortized bond and note	(311,378)	(294,232)
Less unamortized premiums, net of accumulated amortization of \$781,554 and \$732,756, respectively	(290,917)	(339,715)
Water Revenue Bonds - 2010		8,665,000
Less current portion		(430,000)
	<u>\$ 7,063,103</u>	<u>\$ 7,601,053</u>

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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.

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 were restricted for the future construction projects of the Authority.

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

The bonds were 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.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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.

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.

On December 8, 2015 the Authority issued the Water Revenue Note, Series of 2015 proceeds of which were used to advance-refund the remaining balance and accrued interest on the Water Revenue Bonds, Series of 2010.

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, 2015 and 2014, the Authority paid interest of \$282,573 and \$299,673, respectively.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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 2015 and 2014 the Authority paid College Township \$85,872 and \$83,556, 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.

K. Subsequent events

Subsequent events have been evaluated through April 6, 2016, 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, 2015

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,617,943	\$ 1,629,785	\$ (11,842)
Operating Expenses:			
Purification system	29,352	36,000	(6,648)
Collection system	--	500	(500)
Pumping system, primarily power	65,386	85,970	(20,584)
Storage	169	1,150	(981)
Maintenance	55,926	47,440	8,486
General	174,290	166,700	7,590
Office	97,315	101,300	(3,985)
General property	20,065	22,900	(2,835)
Engineering and professional fees	57,791	60,200	(2,409)
Taxes, benefits and insurance	188,945	207,470	(18,525)
Miscellaneous	103,489	89,197	14,292
Total operating expenses	<u>792,728</u>	<u>818,827</u>	<u>(26,099)</u>
Net operating income	825,215	810,958	14,257
Other Receipts and Revenues:			
Tap and connection fees	27,670	30,000	(2,330)
Investment income	8,383	6,100	2,283
Sub-total	<u>36,053</u>	<u>36,100</u>	<u>(47)</u>
Total available for debt service	861,268	847,058	14,210
Debt service requirements provided:			
Interest expense	282,573	282,573	--
Principal repayments	440,000	440,000	--
Total debt service	<u>722,573</u>	<u>722,573</u>	<u>--</u>
Available for contingencies and capital improvements	<u>\$ 138,695</u>	<u>\$ 124,485</u>	<u>\$ 14,210</u>
Ratio of total available for debt service to debt service	<u>119.2%</u>	<u>117.3%</u>	<u>1.9%</u>

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

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, 2015, 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 6, 2016.

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.

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.

Fiora Fedeli Snyder Cauffman, LLP

State College, Pennsylvania
April 6, 2016

Supplemental Report from Auditor to Board

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

April 6, 2016

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, 2015 and 2014, and have issued our report thereon dated April 6, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 5, 2016. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2015. 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 April 6, 2016.

College Township Water Authority
April 6, 2016
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

Fiore Fedeli Snyder Carothers, LLP