

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2010 AND 2009

COLLEGE TOWNSHIP WATER AUTHORITY
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YEARS ENDED DECEMBER 31, 2010 AND 2009

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Independent Auditor's Report

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

We have audited the accompanying statements of net assets of College Township Water Authority, Centre County, Pennsylvania (the "Authority") as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Township Water Authority as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 to 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except the portion captioned "budget-unaudited - cash basis", has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

For Pauli Snyder Carothers, CPA

State College, Pennsylvania
April 11, 2011

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2010 and 2009

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, 2010. 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 2010

1. Issued Water Revenue Bonds, Series of 2010 in the principal amount of \$9,990,000 to provide funds to refund the outstanding 2003 Water Revenue Bonds and for capital projects. The present value savings totaled \$336,310 or 4.03% of refunded principal.
2. Continued historically low interest rates resulted in revenue from investments coming in well under budget.
3. Net assets increased by \$71,000.
4. The Authority negotiated an agreement with Bellefonte to supply them with water for certain purposes.

Overview of the Financial Statements

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

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

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

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. For example, an electric bill for usage during the month of December 2010 is recorded as an expense in 2010 although it may not have been paid until January 2011.

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

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

Analysis of Financial Position

2010:

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

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

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

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

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

Analysis of Financial Position

2009:

The following condensed statement of net assets shows that at December 31, 2009, total assets exceeded total liabilities by \$4.0 million, an increase of \$388,000 over the prior year.

	Net Assets at December 31.		
	2010	2009	Change
Current assets	\$ 404,733	\$ 474,833	\$(70,100)
Restricted assets	1,614,459	1,996,680	(382,221)
Other non-current assets	173,525	282,039	(108,514)
Capital assets - net	<u>10,126,391</u>	<u>9,490,124</u>	<u>636,267</u>
 Total Assets	 12,319,108	 12,243,676	 75,432
 Current liabilities	 619,866	 628,493	 (8,627)
Bonds payable - net	<u>7,721,622</u>	<u>8,025,726</u>	<u>(304,104)</u>
 Total Liabilities	 8,341,488	 8,654,219	 (312,731)
 Net Assets	 <u>\$ 3,977,620</u>	 <u>\$ 3,589,457</u>	 <u>\$ 388,163</u>

Total current and restricted assets decreased in 2009 primarily as a result of an decrease in operating revenue and tap fees over 2008. Contract receivable, which accounted for the majority of the other non-current assets classification, decreased by \$87,600 as a result of payments received from the Commonwealth of Pennsylvania ("Commonwealth") pursuant to the Water Service Agreement.

Net capital assets increased as a result of current year investment in projects funded with Bond Redemption and Improvement Fund and operations monies and the capitalized value of the water main extensions contributed by developers exceeding current year depreciation expense.

The decrease in total liabilities is primarily the result of the net decrease in bonds payable attributed to the net of the amortization of premium and the \$355,000 principal payment.

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

Analysis of Operating Results

2010:

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

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

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

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

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

Statement 33 of the Governmental Accounting Standards Board requires that physical assets, such as water main extensions, contributed to the Authority by developers be treated as non-operating revenue. The Authority recorded zero and \$398,000 of such non-operating revenue during the years ended December 31, 2010 and 2009, respectively.

Analysis of Operating Results

2009:

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

	<u>Changes in Net Assets</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Operating revenues	\$ 1,337,545	\$ 1,487,848	\$(150,303)
Operating expenses	961,711	953,058	8,653
Operating income	375,834	534,790	(158,956)
Non-operating revenues and (expense)	12,329	(107,787)	120,116
Changes in net assets	\$ 388,163	\$ 427,003	\$(38,840)

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

The Authority experienced a decrease in metered revenue for 2009 totaling \$155,000, \$135,000 being attributable to decreased usage by SCI-Rockview.

Fluctuations in various expenses resulted in an overall increase of \$9,000 from 2008.

An decrease in connection fee revenue together with a \$250,000 contribution from Centre County and the value of water lines contributed to the Authority pursuant to water main extension agreements are the primary driving forces behind the increase in non-operating revenues from 2008.

Statement 33 of the Governmental Accounting Standards Board requires that physical assets, such as water main extensions, contributed to the Authority by developers be treated as non-operating revenue. The Authority recorded \$148,000 and \$242,000 of such non-operating revenue during the years ended December 31, 2010 and 2009, respectively.

The difference in the levels of such activity from 2008 to 2009 directly impacts the overall changes in the Authority's net assets. These contributions are also associated with an expansion of the Authority's customer base.

Capital Assets

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

At December 31, 2009, the Authority had invested \$10.1 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$2.9 million accumulated depreciation. Significant additions included 1) Developer water main extensions - \$148,000, and 2) Waterline installation and upgrades - \$659,000, 3) Sealing of the Struble Tank - \$35,000, and 4) Purchase of a backhoe - \$67,000.

The Authority plans to continue investing in its water system in 2011. Budgeted improvements total \$1.15 million with funding primarily to come from funds available in the 2010 Construction Fund. The Authority also plans on spending \$30,000 on various capital assets.

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

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

Long-Term Debt Activity

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

The 2010 bonds are secured by a Trust Indenture. More importantly however, the Indenture requires annual revenues from the water system to be equal to or greater than the combined total of 100% of the year's actual administrative and operating expenses and 110% of that year's debt service requirement. This requirement is perhaps the single greatest driving factor in establishing the rates for water service. The supplemental schedule found on page 23 of this report illustrates the Authority's compliance with this provision of the Indenture.

At December 31, 2010, \$9,910,000 of the original par value remained outstanding. The Trust Indenture required transfers to the Debt Service Reserve Fund totaling \$728,000 as additional security for the payment of bond interest and principal. Such transfers were made in the amounts required and on schedule.

At December 31, 2009, \$8,720,000 of the original par value remained outstanding following a principal payment of \$355,000. The Trust Indenture required transfers to the Debt Service Fund totaling \$1,080,860 for the payment of bond interest and principal. Such transfers were made in the amounts required and on schedule.

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

Potentially Significant Matters

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

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

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

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

Overall Financial Analysis

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

Request for Information

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

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF NET ASSETS

	December 31,	
	2010	2009
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 119,672	\$ 133,376
Trade accounts receivable, net	337,868	239,272
Accrued interest and other receivables	4,338	1,098
Material and supplies	27,318	30,784
Due from College Township	1,551	203
Total current assets	490,747	404,733
Non-current Assets:		
Restricted assets held by trustee	2,634,637	1,614,459
Unamortized bond costs, net	463,368	173,525
	3,098,005	1,787,984
Capital Assets:		
Water Utility Plant in service, at cost	13,029,354	12,999,496
Less accumulated depreciation	(3,151,246)	(2,884,077)
Net utility plant	9,878,108	10,115,419
Construction in progress	25,796	10,972
Total utility plant	9,903,904	10,126,391
Total assets	13,492,656	12,319,108
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	72,507	71,907
Due to College Township	566	1,453
Accrued interest	26,356	176,506
Current portion of long term debt	410,000	370,000
Total current liabilities	509,429	619,866
Non-current Liabilities:		
Bonds payable, net of unamortized premium	8,934,937	7,721,622
Total liabilities	9,444,366	8,341,488
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	2,867,417	3,316,130
Restricted for debt service	163,864	--
Restricted for capital outlays	510,318	330,118
Unrestricted	506,691	331,372
Total net assets	\$ 4,048,290	\$ 3,977,620

See accompanying notes to financial statements

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

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Operating revenues (securing revenue bonds):		
Water operating revenues	\$ 1,244,829	\$ 1,104,660
Unmetered water sales and other fees	<u>257,851</u>	<u>232,885</u>
Total operating revenues	1,502,680	1,337,545
Operating expenses:		
Purification system	30,145	36,566
Pumping system, primarily power	105,820	96,566
Storage	3,451	2,077
Maintenance	80,763	38,252
General	175,110	152,187
Office	85,037	70,570
General property	15,740	11,860
Engineering and professional fees	52,318	54,458
Taxes, benefits and insurance	129,650	123,604
Miscellaneous	77,130	77,518
Depreciation and amortization	<u>313,391</u>	<u>298,053</u>
Total operating expenses	<u>1,068,555</u>	<u>961,711</u>
Operating income	434,125	375,834
Non-operating revenues/(expense):		
Interest expense	(402,242)	(423,111)
Investment income	6,026	25,223
Tap and connection fees	<u>32,761</u>	<u>11,943</u>
Sub-total	(363,455)	(385,945)
Capital contributions	<u>--</u>	<u>398,274</u>
Net income	70,670	388,163
Net assets, beginning	<u>3,977,620</u>	<u>3,589,457</u>
Net assets, ending	\$ <u><u>4,048,290</u></u>	\$ <u><u>3,977,620</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,435,497	\$ 1,434,870
Cash payments to suppliers for goods and services	(751,985)	(681,632)
Net cash provided by operating activities	<u>683,512</u>	<u>753,238</u>
Cash flows from capital and related financing activities:		
Payments for water utility plant	(70,884)	(517,690)
Interest paid on bonds and capital leases	(489,077)	(360,500)
Capital contributions	--	87,676
Proceeds from bond issuance	9,910,000	--
Bond issuance costs	(309,863)	--
Principal paid on bond maturities	(8,720,000)	(355,000)
Net cash provided by/ (used in) capital and related financing activities	<u>320,176</u>	<u>(1,145,515)</u>
Cash flows from investing activities:		
(Purchase of)/ proceeds from investments	(1,020,178)	382,221
Investment earnings	<u>2,786</u>	<u>28,637</u>
Net cash provided by/ (used in) investing activities	<u>(1,017,392)</u>	<u>410,858</u>
Net (decrease)/ increase in cash	(13,704)	18,581
Cash balance, beginning of year	<u>133,376</u>	<u>114,795</u>
Cash balance, end of year	\$ <u>119,672</u>	\$ <u>133,376</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 434,125	\$ 375,834
Tap and connection fees	32,761	11,943
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	293,369	277,214
Amortization of bond costs	20,022	20,839
Change in assets and liabilities:		
(Increase)/ decrease in receivables	(99,944)	85,382
Decrease/ (increase) in materials and supplies	3,466	(115)
Decrease/ (increase) in accounts payable and accrued expenses	600	(19,312)
(Decrease)/ increase/ in amounts due to related parties	(887)	<u>1,453</u>
Net cash provided by operating activities	\$ <u>683,512</u>	\$ <u>753,238</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

A. Summary of Significant Accounting Policies

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

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

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

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

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

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

Accounts receivable - Accounts receivable are shown net of allowances for uncollectible amounts. At December 31, 2010 and 2009, allowances of \$7,223 and \$6,938, 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.

Basis of Presentation

Certain prior year balances have been reclassified to conform with current year presentation.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

A. Summary of Significant Accounting Policies (continued)

Investments - Investments are recorded at amortized cost. Included in other receivables at December 2010 and 2009 are \$4,338 and \$1,098, respectively of accrued interest and dividends on the assets held by the Trustee.

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

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

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

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

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

The contributed assets are then depreciated over their useful life.

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

Credit risk - Cash balances not secured by FDIC insurance are collateralized as provided under Pennsylvania Act 72, whereby banks pledge collateral with a market value equal or exceeding the total of its public funds and place the collateral with a third party such as the Federal Reserve Bank. Cash balances of \$250,000 are FDIC insured. The remaining balance is secured as described above.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

A. Summary of Significant Accounting Policies (continued)

Estimates

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

B. Receivables

	December 31,	
	2010	2009
Interest Receivable	\$ 4,338	\$ 1,098
Accounts Receivable, net	337,868	239,272
Total Accrued Interest and Accounts Receivable	\$342,206	\$ 240,370

C. Water Utility Plant

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

	Useful Life In Years	December 31,	
		2010	2009
Land and rights		\$ 213,140	\$ 213,140
Land improvements	15	11,468	11,468
Land, rights and improvements		224,608	224,608
Structures and Improvements:			
Distribution reservoirs, tanks and standpipes	20-60	373,429	373,429
Power and pumping structures	20-35	321,559	321,559
Wells and springs	40	2,854,129	2,854,129
Structures and improvements		3,549,117	3,549,117
Tangible Plant:			
Main and accessories	50	8,466,084	8,466,085
Meters	10-20	334,047	314,613
Electric pumping equipment	10-20	110,267	110,267
Transportation equipment	5-7	185,340	182,692
Tools and work equipment	15	58,375	58,375
Office furniture and equipment	3-7	68,509	68,509
Other power pumping equipment	10	33,007	25,230
Tangible plant		9,255,629	9,225,771
Total		13,029,354	12,999,496
Less accumulated depreciation		(3,151,246)	(2,884,077)
Net Utility Plant		\$ 9,878,108	\$ 10,115,419

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

C. Water Utility Plant (continued)

Capitalized interest expense for construction in progress was not material to 2010 or 2009. 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,	
	2010	2009
Construction Fund	\$ 1,117,082	
Revenue Fund	89,018	
Debt Service Fund	190,219	\$ 546,505
Debt Service Reserve Fund	728,000	737,836
Bond Redemption and Improvement Fund	510,318	330,118
	\$ 2,634,637	\$ 1,614,459

Investments held in the funds consist of:

U.S Bank Corporate Trust MM Fund	\$ 2,234,637	
First National Bank Daily Fund	--	\$ 1,514,459
Certificates of Deposit	400,000	100,000
	\$ 2,634,637	\$ 1,614,459

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

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

E. Unamortized Bond Costs

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

The significant components of these costs are:

	December 31,	
	2010	2009
Insurance and other issuance costs, net - 2003	\$ 194,783	\$ 194,783
Original issue premium - 2003	(14,852)	(14,852)
Underwriter's discount - 2003	134,027	134,027
Insurance and other issuance costs, net - 2010	161,047	--
Original issue discount - 2010	6,459	--
Underwriter's discount - 2010	142,359	--
Total costs and related expenses	\$ 623,823	\$ 313,958

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$20,022 and \$20,838 for the years ended December 31, 2010 and 2009, respectively; accumulated amortization was \$160,455 and \$140,433, respectively.

F. Bonds Payable

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

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

F. Bonds Payable (continued)

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

Bonds Payable consist of the following:

	December 31,	
	2010	2009
Water Revenue Bonds - 2010	\$ 9,910,000	
Water Revenue Bonds - 2003	--	\$ 8,720,000
Less Current Portion	(410,000)	(370,000)
Less Unamortized premiums, net of accumulated amortization of \$507,408 and \$444,093 at December 31, 2010 and 2009	(565,063)	(628,378)
	<u>\$ 8,934,937</u>	<u>\$ 7,721,622</u>

Total future debt service requirements are as follows:

Due January 1,	Principal Amount	Coupon Interest Rate	Coupon Interest	Total Debt Service
2011	--	1.00%	26,356	26,356
2012	410,000	1.00%	316,272	726,272
2013	415,000	2.00%	312,713	727,713
2014	420,000	2.00%	303,873	723,873
2015	430,000	3.00%	295,473	725,473
2016	440,000	2.00%	282,573	722,573
2017	450,000	2.35%	273,773	723,773
2018	460,000	2.60%	263,198	723,198
2019	475,000	2.90%	251,238	726,238
2020	485,000	3.10%	237,463	722,463
2021	505,000	3.30%	222,428	727,428
2022	520,000	3.40%	205,763	725,763
2023	535,000	3.55%	188,083	723,083
2024	555,000	3.65%	169,090	724,090
2025	575,000	3.75%	148,833	723,833
2026	600,000	3.80%	127,270	727,270
2027	620,000	3.85%	104,470	724,470
2028	645,000	4.00%	80,600	725,600
2029	670,000	4.00%	54,800	724,800
2030	700,000	4.00%	28,000	728,000
	<u>\$ 9,910,000</u>		<u>\$3,892,269</u>	<u>\$ 13,802,269</u>

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

F. Bonds Payable (continued)

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

The bonds are subject to a Trust Indenture (the "Indenture") dated as of December 1, 2010 between the Authority and U.S. Bank National Association as Trustee. The Indenture specifies the terms and conditions for the security and repayment of the bonds as well as the use of the bond proceeds. As more fully set forth therein:

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

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

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

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

The Debt Service Reserve Fund into which an initial deposit of \$728,000 was made to further secure the bonds, representing an amount equal to the highest debt service requirement in any one year.

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

F. Bonds Payable (continued)

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

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

G. Statement of Cash Flows

For the years ending December 31, 2010 and 2009, the Authority paid interest of \$489,077 and \$360,500, respectively.

H. Related Party Transactions

During 2010 and 2009 the Authority paid College Township \$74,820 for the oversight of its administrative, financial and operational activities. College Township also serves as the common paymaster for all employees. Costs of the employees hired for, or assigned to Authority operations are billed at actual costs and reimbursed by the Authority.

I. Commitments and Contingencies

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

COLLEGE TOWNSHIP WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND DEBT SERVICE-
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,502,680	\$ 1,514,368	\$(11,688)
Operating Expenses:			
Purification system	30,145	31,620	1,475
Pumping system, primarily power	105,820	115,080	9,260
Storage	3,451	3,480	29
Maintenance	80,763	47,391	(33,372)
General	175,110	172,519	(2,591)
Office	85,037	82,535	(2,502)
General property	15,740	18,800	3,060
Engineering and professional fees	52,318	57,000	4,682
Taxes, benefits and insurance	129,650	137,685	8,035
Miscellaneous	77,130	78,820	1,690
Total operating expenses	<u>755,164</u>	<u>744,930</u>	<u>(10,234)</u>
Net operating income	747,516	769,438	(21,922)
Other Receipts and Revenues:			
Tap and connection fees	32,761	22,300	10,461
Investment income	6,026	17,500	(11,474)
Sub-total	<u>38,787</u>	<u>39,800</u>	<u>(1,013)</u>
Total available for debt service	786,303	809,238	(22,935)
Debt service requirements provided:			
Interest expense	312,571	340,986	28,415
Principal repayments	190,000	380,000	190,000
Total debt service	<u>502,571</u>	<u>720,986</u>	<u>218,415</u>
Available for contingencies and capital improvements	<u>\$ 283,732</u>	<u>\$ 88,252</u>	<u>\$ 195,480</u>
Ratio of total available for debt service to debt service	<u>156.5%</u>	<u>112.2%</u>	<u>44.3%</u>

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