

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

FIORE FEDELI SNYDER CAROTHERS, LLP

COLLEGE TOWNSHIP WATER AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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

Independent Auditor's Report

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

We have audited the accompanying statements of net position of College Township Water Authority, Centre County, Pennsylvania (the "Authority") as of December 31, 2013 and 2012, 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 your audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Township Water Authority as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2014, 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 Snyder Carother, LLP

State College, Pennsylvania
April 2, 2014

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2013 and 2012

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, 2013. 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 2013

1. Net position increased by \$186,000.
2. The Authority has not been able to come to terms with UAJA relative to rate reimbursement for new CTWA service area customers utilizing beneficial reuse water.
3. Development of an additional water supply in Oak Hall continues.
4. Effective with billings to regular customers subsequent to December 31, 2012, the rate per 1,000 gallons increased by 3.4% to \$6.10.
5. Water system revenue covered operating expenses and 126.7% of required debt service payments, demonstrating the Authority's compliance with the minimum coverage requirement of 110%.

Overview of the Financial Statements

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

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

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

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

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. For example, an electric bill for usage during the month of December 2013 is recorded as an expense in 2013 although it may not have been paid until January 2014.

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

2013:

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

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

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

Analysis of Financial Position

2013:

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

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

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

Analysis of Financial Position

2012:

The following condensed statement of net position shows that at December 31, 2012, total position exceeded total liabilities by \$4.05 million, an increase of \$ 133,000 over the prior year.

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

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

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

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

Analysis of Operating Results

2013:

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

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

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

Analysis of Operating Results

2012:

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

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

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

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

Water Rates

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

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

Capital Assets

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

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

The Authority will continue to invest in improvements to its water system in 2014 although at a reduced amount as compared with 2013. Budgeted improvements total \$236,000 with \$168,000 of that amount being funded with monies available in the Bond Redemption and Improvement Fund. The remaining amount, \$68,000, will be funded by operating income.

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, 2013 and 2012, \$9,085,000 and \$9,500,000, respectively, of the original par value remained outstanding. The Trust Indenture required transfers to the Debt Service Fund totaling \$728,000 for the payment of bond interest and principal. Such transfers were made in the amounts required and on schedule.

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

Potentially Significant Matters

Beneficial Reuse Water:

The University Area Joint Authority ("UAJA") has constructed a transmission line that will transmit "beneficial reuse" water for discharge at the upper reaches of Slab Cabin Run. Potentially, both current and prospective customers of the Authority may be able to use the reuse water instead of the water provided by the Authority. Although an agreement currently exists which prevents a revenue loss by the Authority if this situation occurs, the Authority and UAJA have not been able to come to terms relative to rate reimbursement for new CTWA Service area customers wishing to use beneficial reuse water.

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

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

SCI at Rockview/Benner:

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

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

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

Access to Funding:

It is expected that the Authority will utilize a provision in the Trust Indenture that allows for the replacement of cash held in the Debt Service Reserve Fund with a Surety Bond. Funds available to the Authority via this process will initially be used for the cost of developing the Oak Hall wells.

Overall Financial Analysis

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

Request for Information

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

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF NET POSITION

	December 31,	
	2013	2012
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 87,842	\$ 188,934
Trade accounts receivable, net	369,711	293,593
Accrued interest and other receivables	8,281	55
Material and supplies	29,269	29,197
Prepaid assets	13,516	--
Due from College Township	--	1,831
Total current assets	508,619	513,610
Non-current Assets:		
Restricted assets held by trustee	1,502,797	1,727,156
Unamortized bond costs, net	332,196	373,766
	1,834,993	2,100,922
Capital Assets:		
Water Utility Plant in service, at cost	14,550,905	13,605,207
Less accumulated depreciation	(4,071,701)	(3,741,372)
Net utility plant	10,479,204	9,863,835
Construction in progress	575,356	1,087,985
Total utility plant	11,054,560	10,951,820
Total assets	13,398,172	13,566,352
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	100,384	109,825
Due to College Township	19,045	--
Accrued interest	151,936	156,086
Current portion of long term debt	420,000	415,000
Total current liabilities	691,365	680,911
Non-current Liabilities:		
Bonds payable, net of unamortized premium	8,273,355	8,638,411
Total liabilities	8,964,720	9,319,322
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	3,421,404	3,000,176
Restricted for debt service	571,936	571,086
Restricted for capital outlays	193,701	348,630
Unrestricted	246,411	327,138
Total net position	\$ 4,433,452	\$ 4,247,030

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>2013</u>	<u>2012</u>
Operating revenues (securing revenue bonds):		
Water operating revenues	\$ 1,368,543	\$ 1,289,439
Unmetered water sales and other fees	<u>279,941</u>	<u>257,309</u>
Total operating revenues	1,648,484	1,546,748
Operating expenses:		
Purification system	30,033	26,746
Pumping system, primarily power	82,608	83,211
Storage	5,189	154
Maintenance	41,129	51,107
General	161,722	212,471
Office	100,853	97,438
General property	23,976	16,151
Engineering and professional fees	52,964	63,732
Taxes, benefits and insurance	180,096	157,385
Miscellaneous	84,033	83,319
Depreciation and amortization	<u>371,899</u>	<u>354,622</u>
Total operating expenses	<u>1,134,502</u>	<u>1,146,336</u>
Operating income	513,982	400,412
Non-operating revenues/(expense):		
Interest expense	(358,817)	(370,016)
Investment income	7,383	949
Tap and connection fees	<u>23,874</u>	<u>101,456</u>
Sub-total	<u>(327,560)</u>	<u>(267,611)</u>
Net income	186,422	132,801
Net position, beginning	<u>4,247,030</u>	<u>4,114,229</u>
Net position, ending	\$ <u><u>4,433,452</u></u>	\$ <u><u>4,247,030</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,589,808	\$ 1,651,236
Cash payments to suppliers for goods and services	(770,593)	(755,229)
Net cash provided by operating activities	819,215	896,007
Cash flows from capital and related financing activities:		
Payments for water utility plant	(421,920)	(1,128,812)
Interest paid on bonds and capital leases	(308,023)	(314,223)
Principal paid on bond maturities	(415,000)	(410,000)
Net cash used in capital and related financing activities	(1,144,943)	(1,853,035)
Cash flows from investing activities:		
Proceeds from investments	224,359	1,046,492
Investment earnings	277	996
Net cash provided by investing activities	224,636	1,047,488
Net (decrease)/increase in cash	(101,092)	90,460
Cash balance, beginning of year	188,934	98,474
Cash balance, end of year	\$ 87,842	\$ 188,934
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 513,982	\$ 400,412
Tap and connection fees	23,874	101,456
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	330,329	311,474
Amortization of bond costs	41,570	43,148
Change in assets and liabilities:		
(Increase) / decrease in receivables	(82,550)	3,032
Increase / (decrease) in materials and supplies	72	(868)
Increase in prepaid expense	(13,516)	--
(Decrease) / increase in accounts payable and accrued expenses	(13,591)	38,008
Increase / (decrease) in amounts due to related parties	19,045	(655)
Net cash provided by operating activities	\$ 819,215	\$ 896,007

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, allowances of \$16,393 and \$12,232, respectively, have been provided for such items.

Inventory - Inventories of supplies and materials are stated at the lower of cost or market value based on the first-in, first-out method.

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

A. Summary of Significant Accounting Policies (continued)

Investments - Investments are recorded at amortized cost. Included in other receivables at December 2013 and 2012 are \$18 and \$55, 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. 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, 2013 AND 2012

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.

Subsequent events - Subsequent events have been evaluated through April 2, 2014, which is the date the financial statements were available to be issued.

B. Receivables

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Interest Receivable	\$ 8,281	\$ 55
Accounts Receivable, net	<u>369,711</u>	<u>293,593</u>
 Total Accrued Interest and Accounts Receivable	 <u>\$377,992</u>	 <u>\$ 293,648</u>

C. Water Utility Plant

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

	<u>Useful Life In Years</u>	<u>December 31,</u>	
		<u>2013</u>	<u>2012</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	359,604
Wells and springs	40	<u>3,595,265</u>	<u>2,860,842</u>
 Structures and improvements		 4,379,228	 3,593,875
 Tangible Plant:			
Main and accessories	50	9,050,629	8,949,353
Meters	10-20	434,657	378,453
Electric pumping equipment	10-20	113,132	110,267
Transportation equipment	5-7	188,760	188,760
Tools and work equipment	15	58,375	58,375
Office furniture and equipment	3-7	68,509	68,509
Other power pumping equipment	10	<u>33,007</u>	<u>33,007</u>
 Tangible plant		 <u>9,947,069</u>	 <u>9,786,724</u>
 Total		 14,550,905	 13,605,207
Less accumulated depreciation		<u>(4,071,701)</u>	<u>(3,741,372)</u>
 Net Utility Plant		 <u>\$ 10,479,204</u>	 <u>\$ 9,863,825</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

C. Water Utility Plant (continued)

Capitalized interest expense for construction in progress was not material to 2013 or 2012. 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:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Revenue Fund	\$ 9,157	\$ 79,439
Debt Service Fund	571,936	571,086
Debt Service Reserve Fund	728,003	728,001
Bond Redemption and Improvement Fund	<u>193,701</u>	<u>348,630</u>
	<u>\$ 1,502,797</u>	<u>\$ 1,727,156</u>

Investments held in the funds consist of:

U.S Bank Corporate Trust MM Fund	\$ 756,549	1,472,871
Certificates of Deposit	<u>746,248</u>	<u>254,285</u>
	<u>\$ 1,502,797</u>	<u>\$ 1,727,156</u>

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

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

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

E. Unamortized Bond Costs

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

The significant components of these costs are:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Insurance and other issuance costs, net - 2003	\$ 194,783	\$ 194,783
Original issue premium - 2003	(14,852)	(14,852)
Underwriter's discount - 2003	134,027	134,027
Insurance and other issuance costs, net - 2010	161,047	161,047
Original issue discount - 2010	6,459	6,459
Underwriter's discount - 2010	142,359	142,359
Total costs and related expenses	623,823	623,823
Accumulated amortization - costs	(291,627)	(250,057)
Unamortized bond costs, net	\$ 332,196	\$ 373,766

These costs are being amortized over the term of the bonds using the interest method. Amortization was \$41,570 and \$43,148 for the years ended December 31, 2013 and 2012, respectively; accumulated amortization was \$291,627 and \$250,057, 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, 2013 AND 2012

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:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Water Revenue Bonds - 2010	\$ 9,085,000	\$ 9,500,000
Less Current Portion	(420,000)	(415,000)
Less Unamortized premiums, net of accumulated amortization of \$680,826 and \$625,882 at December 31, 2013 and 2012	(391,645)	(446,589)
	<u>\$ 8,273,355</u>	<u>\$ 8,638,411</u>

Total future debt service requirements are as follows:

	Principal	Coupon Interest	Coupon Interest	Total Debt Service
Due January 1,	Amount	Rate		
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>\$ 9,085,000</u>		<u>\$3,236,928</u>	<u>\$ 12,321,928</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, 2013 AND 2012

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, 2013 AND 2012

F. Bonds Payable (continued)

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

The Authority is permitted additional unsecured debt up to \$1,500,000 provided no event of default exists at that time, and if other funds are not available. Additional bonds may also be issued under certain circumstances.

G. Statement of Cash Flows

For the years ending December 31, 2013 and 2012, the Authority paid interest of \$308,023 and \$314,223, respectively.

H. Related Party Transactions

During 2013 and 2012 the Authority paid College Township \$81,540 and \$78,960, respectively, for the oversight of its administrative, financial and operational activities. College Township also serves as the common paymaster for all employees. Costs of the employees hired for, or assigned to Authority operations are billed at actual costs and reimbursed by the Authority.

I. Commitments and Contingencies

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

COLLEGE TOWNSHIP WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND DEBT SERVICE-
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2013

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,648,484	\$ 1,637,056	\$ 11,428
Operating Expenses:			
Purification system	30,033	41,000	(10,967)
Collection system	--	1,000	(1,000)
Pumping system, primarily power	82,608	102,425	(19,817)
Storage	5,189	2,150	3,039
Maintenance	41,129	50,100	(8,971)
General	161,722	215,700	(53,978)
Office	100,853	97,350	3,503
General property	23,976	20,650	3,326
Engineering and professional fees	52,964	64,450	(11,486)
Taxes, benefits and insurance	180,096	174,026	6,070
Miscellaneous	84,033	85,290	(1,257)
Total operating expenses	<u>762,603</u>	<u>854,141</u>	<u>(91,538)</u>
Net operating income	885,881	782,915	102,966
Other Receipts and Revenues:			
Tap and connection fees	23,874	25,000	(1,126)
Investment income	<u>7,383</u>	<u>5,000</u>	<u>2,383</u>
Sub-total	<u>31,257</u>	<u>30,000</u>	<u>1,257</u>
Total available for debt service	917,138	812,915	104,223
Debt service requirements provided:			
Interest expense	303,873	303,873	--
Principal repayments	<u>420,000</u>	<u>420,000</u>	--
Total debt service	<u>723,873</u>	<u>723,873</u>	--
Available for contingencies and capital improvements	<u>\$ 193,265</u>	<u>\$ 89,042</u>	<u>\$ 104,223</u>
Ratio of total available for debt service to debt service	<u>126.7%</u>	<u>112.3%</u>	<u>14.4%</u>

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

FIORE FEDELI SNYDER CAROTHERS, LLP

Certified Public Accountants and Consultants

Patrick J. Fiore, CPA
Joseph P. Fedeli, CPA
Robert P. Snyder, CPA
David C. Carothers, CPA
Stanley N. Roseberry IV, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS

Independent Auditor's Report

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

We have audited the financial statements of College Township Water Authority in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which comprise the statement of net position as of December 31, 2013, 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 2, 2014.

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.

Fiore Fedeli Snyder Carothers, LLP

State College, Pennsylvania
April 2, 2014