

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

FIORE FEDELI SNYDER CAROTHERS, LLP

COLLEGE TOWNSHIP WATER AUTHORITY
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YEARS ENDED DECEMBER 31, 2017 AND 2016

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FIORE FEDELI SNYDER CAROTHERS, LLP

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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, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

MEMBERS: AMERICAN AND PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017 and 2016, 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 May 2, 2018, 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.

A handwritten signature in black ink, appearing to read "J. Paul Snyder" followed by some less legible characters.

State College, Pennsylvania
May 2, 2018

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2017 and 2016

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, 2017. 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 2017

1. Net position increased by \$336,000.
2. \$1.9 of the \$2.3 million made available through the issuance of the Water Revenue Note, Series of 2015 remains available to fund projects as of December 31, 2017.
3. \$756,000 was available in the Capital Projects fund as of December 31, 2017.
4. Development of an additional water supply in Oak Hall continues.
5. Water system revenue covered operating expenses and 126.9% of required debt service payments, 10% higher than budgeted.
6. The Authority was able to maintain the same rate of \$6.70 per thousand gallons consumed for 2017 as for 2016.

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 2017 is recorded as an expense in 2017 although it may not have been paid until January 2018.

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

2017:

The following condensed statement of net position shows that at December 31, 2017, total assets exceeded total liabilities by \$4.98 million, an increase of \$336,000 over the prior year.

	Net Position at December 31,		
	2017	2016	Change
Current assets	\$ 1,548,315	\$ 1,485,164	\$ 63,151
Capital assets - net	10,480,595	10,615,623	(135,028)
Total Assets	12,028,910	12,100,787	(71,877)
Current liabilities	644,403	594,845	49,558
Note/Bonds payable - net	6,069,255	6,526,506	(457,251)
Total Liabilities	6,713,658	7,121,351	(407,693)
Net Position	\$ 5,315,252	\$ 4,979,436	\$ 335,816

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

Positive cash flow resulting from the excess of cash provided by operating activities over cash needed for capital and financing activities is the principal reason for the \$63,000 increase in Current Assets.

Although Capital Assets increased in book value by \$224,000, the impact of the depreciation of capital assets resulted in a decrease of \$135,000 in the net (after depreciation) value of Capital Assets.

A rather large bill received in 2018 but recorded as a payable at December 31, 2017 is the primary reason for the \$50,000 increase in Current Liabilities.

Note payable decreased by \$450,000 primarily as the result of the required principal payment made during the year.

2016:

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 \$409,000 over the prior year.

	Net Position at December 31,		
	2016	2015	Change
Current assets	\$ 1,485,164	\$ 1,070,777	\$ 414,387
Capital assets - net	10,615,623	10,658,631	(43,008)
Total Assets	12,100,787	11,729,408	371,379
Current liabilities	594,845	96,230	(498,615)
Note/Bonds payable - net	6,526,506	7,063,103	536,597
Total Liabilities	7,121,351	7,159,333	37,982
Net Position	\$ 4,979,436	\$ 4,570,075	\$ 409,361

Positive cash flow resulting from the excess of cash provided by operating activities over cash needed for capital and financing activities is the primary reason for the \$414,000 increase in Current Assets.

Capital Assets increased in book value by approximately \$300,000 but the impact of depreciation of the assets in service resulted in a \$43,000 decrease in the net value of the Capital Assets.

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

The requirement to classify the principal portion of the debt service payment due in the next 12 months as a current liability resulted in an approximate \$500,000 increase in Current Liabilities.

Notes/Bonds decreased by a similar amount resulting in a minor decrease of around \$28,000 in Total Liabilities.

Analysis of Operating Results

2017:

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		
	2017	2016	Change
Operating revenues	\$ 1,561,156	\$ 1,640,322	\$(79,166)
Operating expenses	1,207,548	1,193,428	14,120
Operating income	353,608	446,894	(93,286)
Non-operating revenues and (expense)	(17,792)	(37,533)	19,741
Changes in net position	\$ 335,816	\$ 409,361	\$(73,545)

Although the rate remained the same for 2017 as in 2016, a decrease in billed gallons was the driving force behind the decrease in Operating Revenues.

Total Operating Expenses came in slightly higher than the prior year but lower than the amount budgeted for 2017. A large increase in costs for purification and general expenses was offset by decreases in water system maintenance costs and professional fees for engineering services.

An increase in investment income and tap fees was offset by an approximate equal reduction in revenue recognized from the acceptance of water extensions contributed by developers resulting in an overall decrease in non-operating expense in the amount of \$20,000.

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

2016:

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		
	2016	2015	Change
Operating revenues	\$ 1,640,322	\$ 1,617,943	\$ 22,379
Operating expenses	<u>1,193,428</u>	<u>1,205,818</u>	<u>(12,390)</u>
Operating income	446,894	412,125	34,769
Non-operating revenues and (expense)	<u>(37,533)</u>	<u>(300,798)</u>	<u>263,265</u>
Changes in net position	<u>\$ 409,361</u>	<u>\$ 111,327</u>	<u>\$ 298,034</u>

Although the rate remained the same as 2015, additional billed usage resulted in a \$23,000 increase in Water Operating Revenue.

Total Operating Expenses came in lower than both the prior year and the 2016 budgeted expenses of operating the water system. A large increase in maintenance and a lesser increase in pumping costs and professional fees were offset by decreases in other major categories such as general, other, and depreciation/amortization.

The combined impact of lower interest cost, increased tap fee revenue and the value of the water line dedicated to the Authority resulted in an decrease of \$263,000 in Non-Operating Expense.

The net result of increased operating revenue, decrease operating and non-operating expenses was an increase in net position by \$298,000 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:

2018	\$6.70
2017	\$6.70
2016	\$6.70
2015	\$6.70
2014	\$6.10

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

Capital Assets

At December 31, 2017, the Authority had invested \$10.5 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$5.5 million in accumulated depreciation. Significant additions included 1) Pumping structure improvements totaling \$36,000, 2) Contribution of Stearns Crossing water line, \$65,000, and 3) \$18,000 in waterline improvements.

At December 31, 2016, the Authority had invested \$10.62 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$5.1 million accumulated depreciation. Significant additions included 1) Water meters, \$12,000, 2) Upgrades to the Houserville Road water lines, \$144,000 and 3) Contribution of Stearns Crossing water line, \$115,000.

The Authority will continue to invest in improvements to its water system in 2018 at an increased amount as compared with 2017. Budgeted improvements total \$472,000 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.

Potentially Significant Matters

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

Overall Financial Analysis

We believe that the overall financial position of the Authority has improved. The increase in net position is but one indication. In addition, the number of customers 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,	
	2017	2016
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,193,645	\$ 1,119,978
Accounts receivable, net	313,878	334,548
Material and supplies	28,875	30,638
Prepaid expenses	11,917	--
Total current assets	1,548,315	1,485,164
Capital Assets:		
Water Utility Plant in service, at cost	15,827,130	15,680,734
Less accumulated depreciation	(5,461,089)	(5,101,348)
Net utility plant	10,366,041	10,579,386
Construction in progress	114,554	36,237
Total utility plant	10,480,595	10,615,623
Total assets	12,028,910	12,100,787
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	105,303	66,145
Current portion of note payable	539,100	528,700
Total current liabilities	644,403	594,845
Non-current Liabilities:		
Note payable, net	6,069,255	6,526,506
Total liabilities	6,713,658	7,121,351
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	3,872,240	3,560,417
Unrestricted	1,443,012	1,419,019
Total net position	\$ 5,315,252	\$ 4,979,436

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>2017</u>	<u>2016</u>
Operating revenues (securing note):		
Water operating revenues	\$ 1,252,206	\$ 1,351,666
Unmetered water sales and other fees	<u>308,950</u>	<u>288,656</u>
Total operating revenues	1,561,156	1,640,322
Operating expenses:		
Purification system	39,978	26,434
Pumping system, primarily power	80,677	72,878
Maintenance	52,090	93,030
General	196,986	176,232
Office	92,332	84,503
General property	13,557	12,518
Engineering and professional fees	56,733	70,840
Taxes, benefits and insurance	181,352	183,281
Other	94,409	93,446
Depreciation and amortization	<u>399,434</u>	<u>380,266</u>
Total operating expenses	<u>1,207,548</u>	<u>1,193,428</u>
Operating income	353,608	446,894
Non-operating revenues/(expense):		
Interest expense	(194,537)	(201,303)
Investment income	21,885	1,858
Contribution in aid of construction	65,164	115,000
Tap and connection fees	<u>89,696</u>	<u>46,912</u>
Total non-operating revenues/(expenses)	<u>(17,792)</u>	<u>(37,533)</u>
Net income	335,816	409,361
Net position, beginning	<u>4,979,436</u>	<u>4,570,075</u>
Net position, ending	<u>\$ 5,315,252</u>	<u>\$ 4,979,436</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,671,522	\$ 1,664,901
Cash payments to suppliers for goods and services	(782,636)	(808,190)
Net cash provided by operating activities	888,886	856,711
Cash flows from capital and related financing activities:		
Payments for water utility plant	(134,138)	(222,094)
Interest paid on bonds, note and capital leases	(152,381)	--
Principal paid on note payable	(528,700)	(442,792)
Proceeds from note payable	--	200,258
Net cash used in capital and related financing activities	(815,219)	(464,628)
Net increase in cash	73,667	392,083
Cash balance, beginning of year	1,119,978	727,895
Cash balance, end of year	\$ 1,193,645	\$ 1,119,978
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 353,608	\$ 446,894
Tap and connection fees	89,696	46,912
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	359,741	356,911
Amortization of bond costs	39,693	23,355
Loss on disposal of assets, net	--	21,204
Change in assets and liabilities:		
Decrease/Increase in receivables	20,670	(27,425)
(Increase)/Decrease in materials and supplies	(1,763)	1,922
Decrease in prepaid expense	(11,917)	--
Decrease in accounts payable and accrued expenses	39,158	7,543
Decrease in amounts due from related party	--	7,043
(Decrease) in amounts due to related parties	--	(27,648)
Net cash provided by operating activities	\$ 888,886	\$ 856,711

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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016, allowances of \$5,709 and \$5,961, 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.

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 1) checking and demand accounts at banks, 2) Certificates of Deposit, and 3) Short-term Investments invested with the Pennsylvania Local Government Trust (PLGIT).

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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. Deposits and Investments

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commonwealth of Pennsylvania recognizes this risk. Under its Act 72, deposits of public funds (in excess of \$250,000 of FDIC insurance) held by banks must be collateralized. Banks must place on deposit with a third-party (usually a Federal Reserve Bank) securities with an aggregate market value in excess of all of its uninsured balances. The Authority requires this protection for its funds.

The Pennsylvania Local Government Investment Trust (PLGIT):

The Authority invests funds with PLGIT. PLGIT was created in 1981 to meet the short-term investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth of Pennsylvania and currently serves more than 2,900 public entity investors across the Commonwealth and cooperatively invest more than \$3.9 billion across multiple programs. PLGIT is subjected to an annual audit. Additional information on PLGIT and its investment strategies can be found at www.plgit.com.

The Authority utilizes these PLGIT programs:

PLGIT-Class is a portfolio of the Trust that operates like a money market fund and stresses safety of principal as its primary objective - a fact underscored by its AAAM rating from Standard & Poor's -

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

a flexible option which requires no minimum balance, no minimum initial investment, and a one day minimum investment period. Dividends are paid monthly.

PLGIT-Prime is a variable rate investment portfolio rated AAAM by Standard & Poor's. This web-based option requires no minimum balance and no minimum initial investment. This option limits redemptions or exchanges to two per calendar month

PLGIT-CD Purchase Program is an option that enables Investors to purchase directly Certificates of Deposit ("CDs") which are intended to be fully insured by the Federal Deposit Insurance Corporation ("FDIC"). Investments in the PLGIT-CD Purchase Program are direct investments of the Investor, not assets of the Trust or under control of its Board of Trustees.

As of December 31, 2017, the Authority's deposit accounts were insured and collateralized as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Banks - Insured	\$ 194,644	\$ 175,161
Certificates of deposit-insured	<u>600,000</u>	<u>600,000</u>
Total deposits held by banks	<u>794,644</u>	<u>775,161</u>
Uninsured and uncollateralized:		
PLGIT - Class portfolio	7,192	7,192
PLGIT - Term portfolio	<u>411,142</u>	<u>411,142</u>
Total investments held by PLGIT	418,334	418,334
Petty Cash	<u>150</u>	<u>150</u>
Total Cash	\$ <u>1,213,128</u>	\$ <u>1,193,645</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

As of December 31, 2016, the Authority's deposit accounts were insured and collateralized as follows:

	Bank Balance	Book Balance
Banks - Insured	\$ 250,000	\$ 250,000
Banks - Collateralized	471,328	15,932
PLGIT - Certificates of deposit	<u>800,000</u>	<u>800,000</u>
Total deposits held by banks	<u>1,521,328</u>	<u>1,065,932</u>
PLGIT - Class portfolio	1,020	1,020
PLGIT - Term portfolio	<u>52,926</u>	<u>52,926</u>
Total investments held by PLGIT	53,946	53,946
Petty Cash	<u>100</u>	<u>100</u>
Total Cash	\$ <u>1,575,374</u>	\$ <u>1,119,978</u>

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	
		2017	2016
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	446,871	410,534
Wells and springs	40	<u>4,357,104</u>	<u>4,351,829</u>
Structures and improvements		5,177,404	5,135,792
Tangible Plant:			
Main and accessories	50	9,461,493	9,075,268
Meters	10-20	499,941	481,945
Electric pumping equipment	10-20	113,132	113,132
Transportation equipment	5-7	186,268	186,268
Tools and work equipment	15	62,768	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>10,425,118</u>	<u>10,320,334</u>
Total		15,827,130	15,680,734
Less accumulated depreciation		(<u>5,461,089</u>)	(<u>5,101,348</u>)
Net Water Utility Plant		\$ <u>10,366,041</u>	\$ <u>10,579,386</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

Capitalized interest expense for construction in progress was not material to 2017 or 2016. There were no significant dispositions of assets in either year.

D. Accounts Receivables, net

Accounts receivable (billed and unbilled) aggregated \$313, 878 and \$334,548 net of allowances of \$5,709 and \$5,961 as of December 31, 2017 and 2016, respectively.

E. Note Payable

On December 8, 2015, the Authority entered into a loan agreement with CNB Bank for \$10,000,000 for its water revenue note, series of 2015. 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. The Authority could then 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, 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</u>		<u>Total</u>
	<u>Amount</u>	<u>Interest</u>	<u>Debt</u>
			<u>Service</u>
2018	\$ 539,100	172,539	711,639
2019	549,800	161,758	711,558
2020	560,700	187,434	748,134
2021	498,400	211,127	709,527
2022	513,300	196,053	709,353
2023	528,600	180,529	709,129
2024	544,300	164,543	708,843
2025	560,600	164,490	725,090
2026	544,400	162,531	706,931
2027	564,500	142,128	706,628
2028	585,300	120,971	706,271
2029	606,800	99,037	705,837
2030	629,100	80,693	709,793
2031	643,500	60,065	703,565
2032	516,300	35,825	552,125
2033	537,900	13,792	551,692
2034	61,000	1,275	62,275
	<u>\$ 8,983,600</u>	<u>\$ 2,154,790</u>	<u>\$ 11,138,390</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

Unamortized Bond Costs

In connection with the issuance of its Water Revenue Bonds, Series of 2003 and 2010 (advance refunded in 2010 and 2015, respectively) 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:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<u>2015 Note</u>		
Origination fee and other costs	66,927	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	701,507
Accumulated amortization	(453,177)	(413,484)
Unamortized note/bond costs, net	\$ <u>248,330</u>	\$ <u>288,023</u>

These costs are being amortized over the original term of the bonds and the note using the interest method. Amortization was \$39,693 and \$23,355 for the years ended December 31, 2017 and 2016, 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.

Long term debt obligations consist of the following:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Water Revenue Note - 2015	\$ 7,059,905	\$ 7,588,605
Less unamortized bond and note costs	(248,330)	(288,023)
Less unamortized premiums, net of accumulated amortization of \$869,251 and \$827,095, respectively	(203,220)	(245,376)
Less current portion	(539,100)	(528,700)
	\$ <u>6,069,255</u>	\$ <u>6,526,506</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

F. Statement of Cash Flows

For the years ending December 31, 2017 and 2016, the Authority paid interest of \$152,381 and \$0, respectively.

G. 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.

H. Related Party Transactions

During 2017 and 2016 the Authority paid College Township \$91,392 and \$88,560, 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.

J. Subsequent Events

Subsequent events have been evaluated through May 2, 2018, 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, 2017

	<u>Actual</u>	<u>Budget- Unaudited- Cash Basis</u>	<u>Variance</u>
Water System Operating Revenues	\$ 1,561,156	\$ 1,633,369	\$ (72,213)
Operating Expenses:			
Purification system	39,978	30,500	9,478
Collection system	--	500	(500)
Pumping system, primarily power	80,677	71,550	9,127
Storage	220	1,165	(945)
Maintenance	52,090	50,350	1,740
General	196,986	196,050	936
Office	92,332	92,300	32
General property	13,557	18,900	(5,343)
Engineering and professional fees	56,733	61,750	(5,017)
Taxes, benefits and insurance	181,352	202,460	(21,108)
Miscellaneous	94,189	94,892	(703)
Total operating expenses	<u>808,114</u>	<u>820,417</u>	<u>(12,303)</u>
Net operating income	753,042	812,952	(59,910)
Other Receipts and Revenues:			
Tap and connection fees	89,696	10,000	79,696
Investment income	21,885	10,000	11,885
Sub-total	<u>111,581</u>	<u>20,000</u>	<u>91,581</u>
Total available for debt service	864,623	832,952	31,671
Debt service requirement	<u>(681,081)</u>	<u>(717,044)</u>	<u>(35,963)</u>
Available for contingencies and capital improvements	<u>\$ 183,542</u>	<u>\$ 115,908</u>	<u>\$ 67,634</u>
Ratio of total available for debt service to debt service	<u>126.9%</u>	<u>116.2%</u>	<u>10.7%</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, 2017, 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 May 2, 2018.

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.



State College, Pennsylvania

May 2, 2018