

COLLEGE TOWNSHIP WATER AUTHORITY  
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

FIORE FEDELI SNYDER CAROTHERS, LLP

COLLEGE TOWNSHIP WATER AUTHORITY  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>PAGE</u>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis Financial Statements:	4 - 9
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13 - 20
Supplementary Schedule:	
Schedule of Revenues, Expenses and Debt Service- Budget vs. Actual	21
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>	22 - 23

Independent Auditors' 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, 2019 and 2018, 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.

***Auditors' Responsibility***

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating for overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Township Water Authority as of December 31, 2019 and 2018, 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 21 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 have 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 6, 2020, 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.

*Fiona Fedeli Spina Lichten, LLP*

State College, Pennsylvania  
May 6, 2020

COLLEGE TOWNSHIP WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Required Supplemental Information)  
Years Ended December 31, 2019 and 2018

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, 2019. 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 2019

1. Net position increased by \$559,439.
2. \$1.3 of the \$2.3 million made available through issuance of the Water Revenue Note, Series of 2015, remains available to fund projects in 2020.
3. \$810,000 was available in the Capital Projects Fund as of December 31, 2019.
4. Development of an additional water supply in Oak Hall continued.
5. Water system revenue covered operating expenses and 114.4% of required debt service payments, 4% higher than budgeted.
6. The Authority accepted a water main extension (3,690 feet of 8" ductile iron pipe and 6 fire hydrants) valued at \$350,000.

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 2019 is recorded as an expense in 2019 although it may not have been paid until January 2020.

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**

**2019:**

The following condensed net position information shows that at December 31, 2019, total assets exceeded total liabilities by \$6.2 million, an increase of \$559,000 over the prior year.

	<u>Net Position at December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current assets	\$ 1,391,750	\$ 1,535,123	\$ ( 143,373)
Capital assets - net	<u>11,183,820</u>	<u>10,670,259</u>	<u>513,561</u>
Total Assets	12,575,570	12,205,382	370,188
Current liabilities	663,566	633,412	30,154
Note/Bonds payable - net	<u>5,695,825</u>	<u>5,915,230</u>	<u>( 219,405)</u>
Total Liabilities	<u>6,359,391</u>	<u>6,548,642</u>	<u>( 189,251)</u>
Net Position	<u>\$ 6,216,179</u>	<u>\$ 5,656,740</u>	<u>\$ 559,439</u>

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

A decrease in cash at December 31, 2019, which was largely the result of \$307,000 in 2019 capital investment being reimbursed in early 2020, is the primary driver in the decrease in Current Assets.

Capital Asset purchases, construction and contributions of \$350,042 in 2019 more than offset the impact of depreciation of capital assets resulting in an increase of \$514,000 in the net (after depreciation) value of capital assets.

An increase in both current portion of debt and accounts payable resulted in minor increase in current liabilities in the amount of \$30,000.

A net decrease in note principal resulting from the excess of repayment over new borrowings, coupled with amortization of borrowing costs and premiums resulted in a decrease of \$219,000 in note payable (net).

**2018:**

The following condensed net position information shows that at December 31, 2018, total assets exceeded total liabilities by \$5.6 million, an increase of \$341,000 the prior year.

	Net Position at December 31,		
	2018	2017	Change
Current assets	\$ 1,535,123	\$ 1,548,315	\$ ( 13,192)
Capital assets - net	10,670,259	10,480,595	189,664
Total Assets	12,205,382	12,028,910	176,472
Current liabilities	633,412	644,403	( 10,991)
Note/Bonds payable - net	5,915,230	6,069,255	( 154,025)
Total Liabilities	6,548,642	6,713,658	( 165,016)
Net Position	\$ 5,656,740	\$ 5,315,252	\$ 341,488

Current Assets were down slightly from 2017, primarily a result of a combined decrease in Cash and Accounts Receivable of approximately \$31,000.

Capital Asset purchases and construction in 2018 more than offset the impact of depreciation of capital assets resulting in an increase of \$204,000 in the net (after depreciation) value of capital assets.

An increase in the current portion of debt and holding a \$14,700 security deposit was offset by a decrease in accounts payable resulting in a minor decrease in current liabilities in the amount of \$11,000.

A net decrease in note principal resulting from the excess of repayment over new borrowings, coupled with amortization of borrowing costs and premiums resulted in a decrease of \$154,000 in notes payable (net).

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

Analysis of Operating Results

2019:

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

	<u>Changes in Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Operating revenues	\$ 1,612,443	\$ 1,556,526	\$ 55,917
Operating expenses	<u>1,337,266</u>	<u>1,295,909</u>	<u>41,357</u>
Operating income	275,177	260,617	14,560
Non-operating revenues and (expense)	<u>284,262</u>	<u>80,871</u>	<u>203,391</u>
Changes in net position	<u>\$ 559,439</u>	<u>\$ 341,488</u>	<u>\$ 217,951</u>

Operating revenues increased 3.6% or \$56,000 primarily as a result an increase in metered water sales.

Expense savings in certain classes of expenses were offset by increased costs for payroll taxes, employee benefits and insurance, resulting in a 3.2% or \$41,000 increase in operating expense.

Similar to 2018, non-operating revenue exceeded non-operating expense. An increase in the value of waterlines contributed by developers more than covered the decrease in tap fees. These items together with strong investment income accounted for 95% of the \$203,000 increase in net non-operating revenue.

2018:

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

	<u>Changes in Net Position</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating revenues	\$ 1,556,526	\$ 1,561,156	\$( 4,630)
Operating expenses	<u>1,295,909</u>	<u>1,207,548</u>	<u>88,361</u>
Operating income	260,617	353,608	( 92,991)
Non-operating revenues and (expense)	<u>80,871</u>	<u>( 17,792)</u>	<u>98,663</u>
Changes in net position	<u>\$ 341,488</u>	<u>\$ 335,816</u>	<u>\$ 5,672</u>

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

Operating revenue was consistent with 2017 results, coming in a bit lower than the prior year, \$5,000, a mere 3/10 of one percent.

Operational challenges experience by the Authority in 2018 resulted in higher than budgeted and prior year professional fees, general expense, and other operating expenses.

The value of a water main extension contributed by a developer together with tap fees were the principal drivers in the \$98,000 increase in non-operating revenues, net of interest expense.

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 as follow:

2019	\$6.75
2018	\$6.70
2017	\$6.70
2016	\$6.70
2015	\$6.70

Capital Assets

At December 31, 2019, the Authority had invested \$11.2 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$6.2 million in accumulated depreciation. Significant additions included: 1) a water main extension to the Winfield Heights Development of \$350,000; and, 2) waterline improvements of \$279,000.

At December 31, 2018, the Authority had invested \$10.7 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$5.8 million in accumulated depreciation. Significant additions included: 1) a water main extension to the Pleasant Point development for \$98,000; 2) waterline improvements of \$366,000; and, 3) a generator for \$82,000.

The Authority will continue to invest in improvements to its water system in 2020 at a slightly increased amount as compared with 2019. Budgeted improvements total \$373,000 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.

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

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,	
	2019	2018
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,025,430	\$ 1,203,631
Accounts receivable, net	323,075	287,289
Material and supplies	27,808	28,715
Prepaid expenses	15,437	15,488
Total current assets	1,391,750	1,535,123
Capital Assets:		
Water Utility Plant in service, at cost	17,051,902	16,388,179
Less accumulated depreciation	( 6,198,166)	( 5,828,225)
Net utility plant	10,853,736	10,559,954
Construction in progress	330,084	110,305
Total utility plant	11,183,820	10,670,259
Total assets	12,575,570	12,205,382
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	88,166	67,616
Due to College Township	--	1,296
Deposit from developer	14,700	14,700
Current portion of note payable	560,700	549,800
Total current liabilities	663,566	633,412
Non-current Liabilities:		
Note payable, net	5,695,825	5,915,230
Total liabilities	6,359,391	6,548,642
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	4,381,295	4,219,929
Unrestricted	1,834,884	1,436,811
Total net position	\$ 6,216,179	\$ 5,656,740

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>2019</u>	<u>2018</u>
Operating revenues (securing note):		
Water operating revenues	\$ 1,303,267	\$ 1,252,213
Unmetered water sales and other fees	<u>309,176</u>	<u>304,313</u>
Total operating revenues	1,612,443	1,556,526
Operating expenses:		
Purification system	47,705	40,354
Pumping system, primarily power	88,984	82,312
Maintenance	42,667	57,471
General	208,200	215,447
Office	97,217	96,552
General property	27,222	23,010
Engineering and professional fees	70,341	76,608
Taxes, benefits and insurance	241,546	200,756
Other	108,583	98,841
Depreciation and amortization	<u>404,801</u>	<u>404,558</u>
Total operating expenses	1,337,266	1,295,909
Operating income	275,177	260,617
Non-operating revenues/(expense):		
Interest expense	( 173,933)	( 183,904)
Investment income	30,850	22,027
Contribution in aid of construction	350,042	98,000
Tap and connection fees	<u>77,303</u>	<u>144,748</u>
Total non-operating revenues/(expenses)	284,262	80,871
Net income	559,439	341,488
Net position, beginning	<u>5,656,740</u>	<u>5,315,252</u>
Net position, ending	<u>\$ 6,216,179</u>	<u>\$ 5,656,740</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY  
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,653,960	\$ 1,742,563
Cash payments to suppliers for goods and services	( 912,253)	( 931,473)
Net cash provided by operating activities	741,707	811,090
Cash flows from capital and related financing activities:		
Payments for water utility plant	( 533,460)	( 436,453)
Interest paid on bonds, note and capital leases	( 138,952)	( 145,265)
Interest received	30,849	--
Principal paid on note payable	( 549,800)	( 539,100)
Proceeds from note payable	271,455	319,714
Net cash used in capital and related financing activities	( 919,908)	( 801,104)
Net (decrease)/increase in cash	( 178,201)	9,986
Cash balance, beginning of year	1,203,631	1,193,645
Cash balance, end of year	\$ 1,025,430	\$ 1,203,631
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 275,177	\$ 260,617
Tap and connection fees	77,303	144,748
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	369,941	367,136
Amortization of bond costs	34,860	37,422
Change in assets and liabilities:		
(Increase)/decrease in receivables	( 35,786)	26,589
Decrease/(increase) in materials and supplies	907	( 160)
Decrease/(increase) in prepaid expense	51	( 3,571)
Increase/(decrease) in accounts payable and accrued expenses	20,550	( 37,687)
Increase in security deposits	--	14,700
(Decrease)/increase in amounts due to related parties	( 1,296)	1,296
Net cash provided by operating activities	\$ 741,707	\$ 811,090

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

	PAGE
A. Summary of Significant Accounting Policies	13-15
B. Deposits and Investments	15-17
C. Water Utility Plant	17-18
D. Receivables	18
E. Note Payable	18-19
F. Statement of Cash Flows	20
G. Risk Management	20
H. Related Party Transactions	20
I. Commitments and Contingencies	20
J. Subsequent Events	20

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

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 54.2 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, 2019 AND 2018

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.

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 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.

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, 2019 AND 2018

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 3,000 public entity investors across the Commonwealth and cooperatively invest more than \$5.0 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](http://www.plgit.com).

The Authority utilizes these PLGIT investment options:

PLGIT 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. The Authority has limited its investment to the PLGIT-Class Shares, one of three available classes of shares in the portfolio, which is a flexible option that requires no minimum balance, no minimum initial investment, and a one day minimum investment period. Dividends are paid monthly.

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019, the Authority's deposit accounts were insured and collateralized as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Banks - Insured	\$ 707,026	\$ 90,163
PLGIT-Certificates of deposit	<u>400,000</u>	<u>400,000</u>
Total deposits held by banks	<u>1,107,026</u>	<u>490,163</u>
Uninsured and uncollateralized:		
PLGIT - Class portfolio	258	14,700
PLGIT - Term portfolio	<u>534,860</u>	<u>520,417</u>
Total investments held by PLGIT	535,118	535,117
Petty Cash	<u>150</u>	<u>150</u>
Total Cash	\$ <u><u>1,642,294</u></u>	\$ <u><u>1,025,430</u></u>

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

As of December 31, 2018, the Authority's deposit accounts were insured and collateralized as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Banks - Insured	\$ 226,455	\$ 223,951
PLGIT - Certificates of deposit	<u>100,000</u>	<u>100,000</u>
Total deposits held by banks	<u>326,455</u>	<u>323,951</u>
Uninsured and uncollateralized:		
PLGIT - Class portfolio	3,924	3,924
PLGIT - Term portfolio	<u>860,906</u>	<u>875,606</u>
Total investments held by PLGIT	864,830	879,530
Petty Cash	<u>150</u>	<u>150</u>
Total Cash	\$ <u>1,191,435</u>	\$ <u>1,203,631</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>2019</u>	<u>2018</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	535,261	535,261
Wells and springs	40	<u>4,357,104</u>	<u>4,357,104</u>
Structures and improvements		5,265,794	5,265,794
Tangible Plant:			
Main and accessories	50	10,554,915	9,925,621
Meters	10-20	530,401	508,472
Electric pumping equipment	10-20	125,632	113,132
Transportation equipment	5-7	186,268	186,268
Tools and work equipment	15	62,768	62,768
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>11,561,500</u>	<u>10,897,777</u>
Total		17,051,902	16,388,179
Less accumulated depreciation		( 6,198,166)	( 5,828,225)
Net Water Utility Plant		\$ <u>10,853,736</u>	\$ <u>10,559,954</u>

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

D. Accounts Receivables, net

Accounts receivable (billed and unbilled) aggregated \$323,075 and \$287,289 net of allowances of \$5,456 and \$4,622 as of December 31, 2019 and 2018, 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>Interest</u>	<u>Total Debt Service</u>
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>\$ 7,894,700</u>	<u>\$ 1,820,493</u>	<u>\$ 9,655,193</u>

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

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>2019</u>	<u>2018</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	<u>134,027</u>	<u>134,027</u>
Total costs and related expenses	701,507	701,507
Accumulated amortization	( 525,458)	( 490,599)
Unamortized note/bond costs, net	\$ <u>176,049</u>	\$ <u>210,908</u>

These costs are being amortized over the original term of the bonds and the note using the interest method. Amortization was \$34,859 and \$37,422 for the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Water Revenue Note - 2015	\$ 6,562,174	\$ 6,840,519
Less unamortized bond and note costs	( 176,049)	( 210,908)
Less unamortized premiums, net of accumulated amortization of \$942,871 and \$907,890, respectively	( 129,600)	( 164,581)
Less current portion	( 560,700)	( 549,800)
	\$ <u>5,695,825</u>	\$ <u>5,915,230</u>

COLLEGE TOWNSHIP WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018

F. Statement of Cash Flows

For the years ending December 31, 2019 and 2018, the Authority paid interest of \$138,952 and \$145,265, 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 2019 and 2018 the Authority paid College Township \$104,616 and \$94,212, 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 is negotiating 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 6 , 2020, 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, 2019

	<u>Actual</u>	Budget- Unaudited- Cash Basis	<u>Variance</u>
Water System Operating Revenues	\$ 1,612,443	\$ 1,599,436	\$ 13,007
Operating Expenses:			
Purification system	47,705	40,120	7,585
Pumping system, primarily power	88,984	77,685	11,299
Storage	1,159	800	359
Maintenance	42,667	54,450	( 11,783)
General	208,200	216,400	( 8,200)
Office	97,217	100,100	( 2,883)
General property	27,222	17,500	9,722
Engineering and professional fees	70,341	64,000	6,341
Taxes, benefits and insurance	241,546	214,572	26,974
Miscellaneous	107,425	108,116	( 691)
Total operating expenses	<u>932,466</u>	<u>893,743</u>	<u>38,723</u>
Net operating income	679,977	705,693	( 25,716)
Other Receipts and Revenues:			
Tap and connection fees	77,303	60,000	17,303
Investment income	30,850	25,000	5,850
Sub-total	<u>108,153</u>	<u>85,000</u>	<u>23,153</u>
Total available for debt service	788,130	790,693	( 2,563)
Debt service requirement	( <u>688,752</u> )	( <u>717,001</u> )	( <u>28,249</u> )
Available for contingencies and capital improvements	<u>\$ 99,378</u>	<u>\$ 73,692</u>	<u>\$ 25,686</u>
Ratio of total available for debt service to debt service	<u>114.4%</u>	<u>110.3%</u>	<u>4.1%</u>

Note: Depreciation, amortization, contributions of capital assets 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 Auditors' 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, 2019, 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 6, 2020.

**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 6, 2020