

COLLEGE TOWNSHIP WATER AUTHORITY
CENTRE COUNTY, PENNSYLVANIA

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

FIORE FEDELI SNYDER CAROTHERS, LLP

COLLEGE TOWNSHIP WATER AUTHORITY
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YEARS ENDED DECEMBER 31, 2020 AND 2019

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FIORE FEDELI SNYDER CAROTHERS, LLP

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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, 2020 and 2019, 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.

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, 2020 and 2019, 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 11, 2021, 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.

Rion Fodali Syde Carter, LLP

State College, Pennsylvania
May 11, 2021

COLLEGE TOWNSHIP WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)
Years Ended December 31, 2020 and 2019

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, 2020. 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 2020

1. Net position increased by \$166,824
2. The drawdown date on the Water Revenue Note, Series of 2015 was extended until June 8, 2022
3. \$1.08 million was available in the Capital Projects and Reserve Funds as of December 31, 2020
4. \$1.0 of the \$2.3 million made available through the issuance of the Water Revenue Note, Series of 2015, remains available to fund projects via the drawdown loan
5. Development of an additional water supply in Oak Hall continued with receipt of preliminary comments from SRBC at the end of the year
6. Water system revenue covered operating expenses and 106.4% of required debt service, 3.6% (\$27,000) less than budgeted
7. A ten-year capital improvement plan to proactively address pending system needs was completed by the Authority's Consulting Engineer
8. Approximately 4,000 feet of waterline was replaced
9. A waterline extension of 750 feet was completed but not dedicated
10. An interest rate reset at the end of 2020 will result in debt service savings in the amount of approximately \$475,000 over the next 5 years

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 2020 is recorded as an expense in 2020 although it may not have been paid until January 2021.

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

2020:

The following condensed net position information shows that at December 31, 2020, total assets exceeded total liabilities by \$6.4 million, an increase of \$167,000 over the prior year.

	<u>Net Position at December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Current assets	\$ 1,623,446	\$ 1,391,750	\$ 231,696
Capital assets - net	<u>11,323,579</u>	<u>11,183,820</u>	<u>139,759</u>
Total Assets	12,947,025	12,575,570	371,455
Current liabilities	604,075	663,566	(59,491)
Note payable - net	<u>5,959,947</u>	<u>5,695,825</u>	<u>264,122</u>
Total Liabilities	<u>6,564,022</u>	<u>6,359,391</u>	<u>204,631</u>
Net Position	<u>\$ 6,383,003</u>	<u>\$ 6,216,179</u>	<u>\$ 166,824</u>

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

A net increase in cash, primarily a result of the receipt of drawdown loan proceeds during 2020, was the driver in the increase in Current Assets.

A higher amount attributed to Construction In Progress was the primary reason for the increase of \$140,000 in the net (after depreciation) value of capital assets.

The decrease of \$59,000 in current liabilities was primarily the result of a decreased amount required for note principal payment in 2021 (i.e. current portion of note payable).

The excess of additional drawdown loan proceeds over the required principal repayment, coupled with the decreases in unamortized debt issuance costs and premiums resulted in the \$264,000 increase in Note Payable-Net.

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 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 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>

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 net decrease of \$219,000 in the note payable.

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

Analysis of Operating Results

2020:

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>2020</u>	<u>2019</u>	<u>Change</u>
Operating revenues	\$ 1,669,739	\$ 1,612,443	\$ 57,296
Operating expenses	<u>1,392,098</u>	<u>1,337,266</u>	<u>54,832</u>
Operating income	277,641	275,177	2,464
Non-operating revenues and (expense)	<u>(110,817)</u>	<u>284,262</u>	<u>(395,079)</u>
Changes in net position	<u>\$ 166,824</u>	<u>\$ 559,439</u>	<u>\$ (392,615)</u>

Operating revenue increased 3.5% or \$57,000 primarily as a result of increase meter water revenue sales.

Expense savings in certain classes of expenses were offset by increased costs for maintenance and general expense, resulting in a 4.1% or \$55,000 increase in operating expense.

Non-operating revenues were lower than 2019 by \$395,000. Investment return was down from 2019 as was revenues from tapping fees. The other item of significance, as compared to waterline contribution in aid of construction totaling \$350,000 in 2019, was that there was no revenue from the value of waterlines contributed by developers. This classification of revenue was the driving reason for the decrease of \$395,000.

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>

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

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.

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:

2020	\$7.00
2019	\$6.75
2018	\$6.70
2017	\$6.70
2016	\$6.70

Capital Assets

At December 31, 2020, the Authority had invested \$11.3 million in capital assets (wells, equipment, structures) and infrastructure (distribution and transmission waterlines) net of \$6.6 million in accumulated depreciation. Significant additions included: 1) a replacement of the East College Avenue water main of \$322,000; and 2) a new truck of \$38,000.

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.

The Authority will continue to invest in improvements to its water system in 2021 at a significantly increased amount as compared with 2020. Budgeted improvements total \$792,000 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,	
	2020	2019
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,242,046	\$ 1,025,430
Accounts receivable, net	336,456	323,075
Material and supplies	29,159	27,808
Prepaid expenses	15,785	15,437
Total current assets	1,623,446	1,391,750
Capital Assets:		
Water Utility Plant in service, at cost	17,425,961	17,051,902
Less accumulated depreciation	(6,573,655)	(6,198,166)
Net utility plant	10,852,306	10,853,736
Construction in progress	471,273	330,084
Total utility plant	11,323,579	11,183,820
Total assets	12,947,025	12,575,570
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued expenses	96,538	88,166
Due to College Township	9,137	--
Deposit from developer	--	14,700
Current portion of note payable	498,400	560,700
Total current liabilities	604,075	663,566
Non-current Liabilities:		
Note payable, net	5,959,947	5,695,825
Total liabilities	6,564,022	6,359,391
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	4,865,272	4,381,295
Unrestricted	1,517,731	1,834,884
Total net position	\$ 6,383,003	\$ 6,216,179

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>2020</u>	<u>2019</u>
Operating revenues (securing note):		
Water operating revenues	\$ 1,352,421	\$ 1,303,267
Unmetered water sales and other fees	317,318	309,176
	<u>1,669,739</u>	<u>1,612,443</u>
Operating expenses:		
Purification system	42,179	47,705
Pumping system, primarily power	89,574	88,984
Maintenance	57,153	42,667
General	247,963	208,200
Office	101,677	97,217
General property	22,877	27,222
Engineering and professional fees	80,129	70,341
Taxes, benefits and insurance	230,497	241,546
Other	112,416	108,583
Depreciation and amortization	407,633	404,801
	<u>1,392,098</u>	<u>1,337,266</u>
Operating income	277,641	275,177
Non-operating revenues/(expense):		
Interest expense	(167,487)	(173,933)
Investment income	19,152	30,850
Contribution in aid of construction	--	350,042
Tap and connection fees	37,518	77,303
	<u>(110,817)</u>	<u>284,262</u>
Net income	166,824	559,439
Net position, beginning	<u>6,216,179</u>	<u>5,656,740</u>
Net position, ending	<u>\$ 6,383,003</u>	<u>\$ 6,216,179</u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash flow from operating activities:		
Cash received from customers	\$ 1,679,176	\$ 1,653,960
Cash payments to suppliers for goods and services	(968,655)	(912,253)
Net cash provided by operating activities	<u>710,521</u>	<u>741,707</u>
Cash flows from capital and related financing activities:		
Payments for water utility plant	(515,248)	(533,460)
Interest paid on bonds, note and capital leases	(136,308)	(138,952)
Interest received	19,152	30,849
Principal paid on note payable	(560,700)	(549,800)
Proceeds from note payable	<u>699,199</u>	<u>271,455</u>
Net cash used in capital and related financing activities	<u>(493,905)</u>	<u>(919,908)</u>
Net Increase/(decrease) in cash	216,616	(178,201)
Cash balance, beginning of year	<u>1,025,430</u>	<u>1,203,631</u>
Cash balance, end of year	\$ <u><u>1,242,046</u></u>	\$ <u><u>1,025,430</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 277,641	\$ 275,177
Tap and connection fees	37,518	77,303
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation of water utility plant	375,489	369,941
Amortization of bond costs	32,144	34,860
Change in assets and liabilities:		
Increase in receivables	(13,381)	(35,786)
(Increase)/decrease in materials and supplies	(1,351)	907
(Increase)/decrease in prepaid expense	(348)	51
Increase in accounts payable and accrued expenses	8,372	20,550
Decrease in security deposits	(14,700)	--
Increase/(decrease) in amounts due to related	<u>9,137</u>	<u>(1,296)</u>
Net cash provided by operating activities	\$ <u><u>710,521</u></u>	\$ <u><u>741,707</u></u>

See accompanying notes to financial statements

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

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COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 AND 2019

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, 2020 AND 2019

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.

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, 2020 AND 2019

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, 2020, the Authority's deposit accounts were insured and collateralized as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Banks - Insured	\$ 1,207,996	\$ 584,977
PLGIT-Certificates of deposit	<u>300,000</u>	<u>300,000</u>
Total deposits held by banks	<u>1,507,996</u>	<u>884,977</u>
Uninsured and uncollateralized:		
PLGIT - Class portfolio	107,545	107,545
PLGIT - Term portfolio	<u>249,374</u>	<u>249,374</u>
Total investments held by PLGIT	356,919	356,919
Petty Cash	<u>150</u>	<u>150</u>
Total Cash	\$ <u>1,865,065</u>	\$ <u>1,242,046</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

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>1,642,294</u>	\$ <u>1,025,430</u>

C. Water Utility Plant

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

	Useful Life <u>In Years</u>	<u>December 31</u>	
		<u>2020</u>	<u>2019</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	10,876,538	10,554,915
Meters	10-20	543,249	530,401
Electric pumping equipment	10-20	125,632	125,632
Transportation equipment	5-7	224,366	186,268
Tools and work equipment	15	62,768	62,768
Office furniture and equipment	3-7	69,999	68,509
Other power pumping equipment	10	<u>33,007</u>	<u>33,007</u>
		<u>11,935,559</u>	<u>11,561,500</u>
Tangible plant			
Total		17,425,961	17,051,902
Less accumulated depreciation		(<u>6,573,655</u>)	(<u>6,198,166</u>)
Net Water Utility Plant		\$ <u>10,852,306</u>	\$ <u>10,853,736</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

D. Accounts Receivables, net

Accounts receivable (billed and unbilled) aggregated \$336,456 and \$323,075 net of allowances of \$7,190 and \$5,456 as of December 31, 2020 and 2019, 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. In accordance with the loan agreement the Note's interest rate reset to 1.469% in December 2020. 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>
2021	\$ 498,400	\$ 107,736	\$ 606,136
2022	513,300	100,415	613,715
2023	528,600	92,875	621,475
2024	544,300	85,109	629,409
2025	560,600	77,114	637,714
2026	544,400	172,548	716,948
2027	564,500	152,514	717,014
2028	585,300	131,740	717,040
2029	606,800	110,201	717,001
2030	629,100	87,871	716,971
2031	643,500	73,514	717,014
2032	516,300	46,615	562,915
2033	537,900	25,034	562,934
2034	61,000	2,550	63,550
	<u>\$ 7,334,000</u>	<u>\$ 1,265,836</u>	<u>\$ 8,599,836</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

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>2020</u>	<u>2019</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	(557,602)	(525,458)
Unamortized note/bond costs, net	\$ <u>143,905</u>	\$ <u>176,049</u>

These costs are being amortized over the original term of the bonds and the note using the interest method. Amortization was \$32,144 and \$34,859 for the years ended December 31, 2020 and 2019, 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>2020</u>	<u>2019</u>
Water Revenue Note - 2015	\$ 6,700,673	\$ 6,562,174
Less unamortized bond and note costs	(143,905)	(176,049)
Less unamortized premiums, net of accumulated amortization of \$974,050 and \$942,871, respectively	(98,421)	(129,600)
Less current portion	(498,400)	(560,700)
	\$ <u>5,959,947</u>	\$ <u>5,695,825</u>

COLLEGE TOWNSHIP WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

F. Statement of Cash Flows

For the years ending December 31, 2020 and 2019, the Authority paid interest of \$136,308 and \$138,952, 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 2020 and 2019 the Authority paid College Township \$108,192 and \$104,616, 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 11, 2021, 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, 2020

	<u>Actual</u>	Budget- Unaudited- Cash Basis	<u>Variance</u>
Water System Operating Revenues	\$ 1,669,739	\$ 1,659,541	\$ 10,198
Operating Expenses:			
Purification system	42,179	50,000	(7,821)
Pumping system, primarily power	89,574	79,380	10,194
Storage	309	1,375	(1,066)
Maintenance	57,153	33,530	23,623
General	247,963	263,764	(15,801)
Office	101,677	101,550	127
General property	22,877	18,900	3,977
Engineering and professional fees	80,129	64,500	15,629
Taxes, benefits and insurance	230,497	239,940	(9,443)
Miscellaneous	112,107	108,892	3,215
Total operating expenses	<u>984,465</u>	<u>961,831</u>	<u>22,634</u>
Net operating income	685,274	697,710	(12,436)
Other Receipts and Revenues:			
Tap and connection fees	37,518	70,000	(32,482)
Investment income	19,152	21,250	(2,098)
Sub-total	<u>56,670</u>	<u>91,250</u>	<u>(34,580)</u>
Total available for debt service	741,944	788,960	(47,016)
Debt service requirement	(<u>697,008</u>)	(<u>717,015</u>)	<u>20,007</u>
Available for contingencies and capital improvements	<u>\$ 44,936</u>	<u>\$ 71,945</u>	<u>\$ (27,009)</u>
Ratio of total available for debt service to debt service	<u>106.4%</u>	<u>110.0%</u>	<u>--</u>

Note: Depreciation, amortization, contributions of capital assets 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
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 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, 2020, 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 11, 2021.

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.

MEMBERS: AMERICAN AND PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

2013 SANDY DRIVE, SUITE 200 + STATE COLLEGE, PENNSYLVANIA 16803 + (814) 237-8999 + FAX (814) 237-0990

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 11, 2021

FIORE FEDELI SNYDER CAROTHERS, LLP

Certified Public Accountants and Consultants

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

May 11, 2021

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

We have audited the financial statements of the College Township Water Authority for the years ended December 31, 2020 and 2019, and have issued our report thereon dated May 11, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 11, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the College Township Water Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2020. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimates were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 11, 2021.

College Township Water Authority
May 11, 2021
Page Three

Management Consultations with Other Independent Accountants

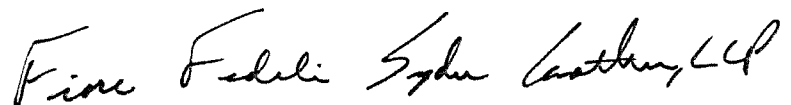
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Authority Members and management of the College Township Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Fiore Fedeli Snyder Carothers, LLP