

Independent Auditor's Report

Chairman and Board Members
University Area Joint Authority
State College, Pennsylvania

We have audited the operating authorities statement of net assets, statement of income and expenses, and debt statement (Schedules) included in the Annual Report of Municipal Authorities (DCED-CLGS-04) of the University Area Joint Authority (Authority) as of and for the year ended December 31, 2011, as described in the instructions provided by the Pennsylvania Department of Community and Economic Development (DCED). These Schedules are the responsibility of the Authority's management. Our responsibility is to express an opinion on these Schedules 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 Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial presentation of the Schedules. We believe that our audit provides a reasonable basis for our opinion.

These Schedules were prepared in conformity with the accounting practices and procedures prescribed or permitted by the DCED, which is a regulatory basis of accounting. These requirements permit the Schedules to be prepared without financial statement disclosures, without a statement of cash flows, and without required supplementary information, including Management's Discussion and Analysis as required by accounting principles generally accepted in the United States of America. The effects on the Schedules of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the Schedules referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority as of December 31, 2011, and the results of its operations for the year then ended.

In our opinion, the Schedules referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011, and the results of its operations for the year then ended, on the basis of accounting described in the third paragraph.

This report is intended solely for the information and use of the Board Members and management of the Authority and for filing with the various state and local departments or offices and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Maher Duessel

Pittsburgh, Pennsylvania
June 20, 2012

UNIVERSITY AREA JOINT AUTHORITY
OPERATING AUTHORITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 265,073	
Investments	(450,338)	
Accounts receivable	3,420,547	
Inventories	-	
Other current assets	5,659,171	
TOTAL CURRENT ASSETS		\$ 8,894,453
RESTRICTED ASSETS/TRUST FUNDS		14,206,934
DEFERRED CHARGES		7,690,102
LEASE RENTAL PAYMENTS RECEIVABLE		-
FIXED ASSETS		
Property, plant, and equipment, at cost	147,635,637	
Less accumulated depreciation	(63,488,142)	
Construction work in progress	1,329,770	
Other fixed assets	-	
NET FIXED ASSETS		85,477,265
TOTAL ASSETS		<u>\$ 116,268,754</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 122	
Accrued payroll and withholdings	-	
Accrued interest payable	647,693	
Current portion of long-term debt	3,893,263	
Other current liabilities	162,614	
TOTAL CURRENT LIABILITIES		\$ 4,703,692
Compensated absences		678,303
Deferred revenue		-
Long-term debt - less current portion		80,086,463
TOTAL LIABILITIES		<u>\$ 85,468,458</u>
NET ASSETS		
Investments in capital assets, net of related debt		17,193,601
Restricted		8,489,619
Unrestricted		5,117,076
TOTAL NET ASSETS		<u>30,800,296</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 116,268,754</u>

UNIVERSITY AREA JOINT AUTHORITY

OPERATING AUTHORITIES STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Sale of services/user charges	\$ 13,390,475	
Operating grants - State	-	
- Federal	-	
Local government operating subsidies	-	
Interest income	-	
Lease rental payments	-	
Other operating revenues	151,892	
TOTAL OPERATING REVENUES		\$ 13,542,367

OPERATING EXPENSES

Cost of sales and services	5,523,546	
Administration - Salaries	906,484	
- Other costs	619,926	
Depreciation	4,566,324	
Other operating expenses	-	
TOTAL OPERATING EXPENSES		11,616,280
OPERATING INCOME (LOSS)		\$ 1,926,087

NONOPERATING REVENUES

Capital grants - State	229,574	
- Federal	-	
Proceeds of sale of fixed assets	-	
Proceeds of borrowings	-	
Other nonoperating revenues	43,549	
TOTAL NONOPERATING REVENUES		273,123

NONOPERATING EXPENSES

Debt service payments	(4,026,032)	
Constructions/extension of system	-	
Major equipment purchased	-	
Derivative investment income (loss)	123,274	
Other nonoperating expenses	(424,373)	
TOTAL NONOPERATING EXPENSES		(4,327,131)
TOTAL NONOPERATING REVENUE (LOSS)		(4,054,008)

NET LOSS BEFORE CONTRIBUTIONS

		(2,127,921)
Contributions: developer		107,095
Contributions: permit and tapping fees		637,831
NET LOSS		(1,382,995)
NET ASSETS (beginning of year)	32,183,291	
NET ASSETS (end of year)	\$ 30,800,296	

UNIVERSITY AREA JOINT AUTHORITY

DEBT STATEMENT

OUTSTANDING BONDS AND NOTES:

Listed below are all currently outstanding bond and note issues according to the Authority's files, excluding bond issues redeemed or refunded and defeased.

Type Purpose	Bond (B) Note (N)	Issue Date (mm/yy)	Original Amount of Issue	Outstanding Beginning of Year	Principal Paid This Year	Outstanding at Year-End	Final Year
4	B	11/93	\$ 41,125,000	\$ 9,000,000	\$ 2,045,000	\$ 6,955,000	2014
4	B	08/01	43,000,000	33,805,000	33,805,000	-	2026
4	B	12/03	24,905,000	15,660,000	70,000	15,590,000	2020
4	N	05/00	1,300,000	840,000	60,000	780,000	2021
4	B	12/06	6,400,000	6,250,000	6,250,000	-	2026
4	B	06/10	10,000,000	10,000,000	5,000	9,995,000	2028
4	B	12/10	6,240,000	6,240,000	5,000	6,235,000	2028
4	B	11/11	32,690,000	-	-	32,690,000	2028
4	B	11/11	6,375,000	-	-	6,375,000	2026
Total bonds and notes outstanding					<u>\$ 78,620,000</u>		
Capitalized lease obligations					<u>-</u>		
Other debt - derivative borrowing					<u>2,288,645</u>		
TOTAL OUTSTANDING DEBT						<u>\$ 80,908,645</u>	
Minus assets held in debt service funds, bond reserve funds, and bond redemption funds					<u>13,906,886</u>		
Minus lease rental payments receivable					<u>-</u>		
CREDITS AGAINST DEBT						<u>13,906,886</u>	
NET DEBT						<u>\$ 67,001,759</u>	

Note: Debt on the Statement of Net Assets is reported net of \$3,272,442 deferred refunding loss and \$630,511 bond discount.