

**2016 AUDIT  
FINANCIAL STATEMENTS  
OF  
CAPITAL REGION WATER  
(CRW)**

**Section No. 6  
Exhibit No. 36**

## **Capital Region Water**

Financial Statements and Required  
Supplementary Information and  
Supplementary Information

Year Ended December 31, 2016 with  
Independent Auditor's Reports

**MaherDuessel**

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# CAPITAL REGION WATER

YEAR ENDED DECEMBER 31, 2016

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## Independent Auditor's Report

Members of the Board of Directors  
Capital Region Water

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Capital Region Water (CRW) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise CRW's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgment, 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 the 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 opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CRW as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the historical pension information on pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 responses 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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CRW's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of CRW'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* in considering CRW's internal control over financial reporting and compliance.

***Maher Duessel***

Harrisburg, Pennsylvania  
September 26, 2017

# CAPITAL REGION WATER

## BALANCE SHEET

DECEMBER 31, 2016

### Assets and Deferred Outflows of Resources

#### Assets:

##### Current assets:

Cash and cash equivalents	\$ 31,370,479
Accounts receivable, net of allowance for uncollectible accounts of \$4,798,347	8,391,183
Due from the City of Harrisburg	2,995,798
Prepaid expenses	291,184
Inventory	489,164
Total current assets	<u>43,537,808</u>

##### Restricted assets:

Cash and cash equivalents - restricted under trust indentures and guarantee agreement	4,723,331
Investments - restricted under trust indentures	37,547,376
Total restricted assets	<u>42,270,707</u>

##### Noncurrent assets:

Capital assets, not being depreciated	12,360,288
Capital assets, net of accumulated depreciation of \$118,292,680	136,420,246
Total noncurrent assets	<u>148,780,534</u>

##### Total Assets

234,589,049

#### Deferred Outflows of Resources:

Deferred loss on refunding	8,778,954
Deferred outflows of resources for pensions	757,778
Total Deferred Outflows of Resources	<u>9,536,732</u>

##### **Total Assets and Deferred Outflows of Resources**

\$244,125,781

**Liabilities, Deferred Inflows of Resources,  
and Net Position**

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Liabilities:

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Current liabilities:

Accounts payable and accrued liabilities	\$ 5,302,705
Current portion of compensated absences	170,386
Due to the City of Harrisburg	2,830,001
Total current liabilities	8,303,092

Liabilities payable from restricted assets:

Accrued interest payable	2,674,120
Current portion of notes payable	1,323,511
Current portion of bonds payable	4,770,000
Total liabilities payable from restricted assets	8,767,631

Noncurrent liabilities:

Compensated absences	253,975
Due to the City of Harrisburg	1,038,255
Notes payable	24,703,769
Bonds outstanding, plus premiums of \$7,327,576	150,112,576
Other postemployment benefit liability	246,734
Unearned revenue	392,829
Net pension liability	624,447
Total noncurrent liabilities	177,372,585

Total Liabilities	194,443,308
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Deferred Inflows of Resources:

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Deferred inflows of resources for pensions	66,857
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Net Position:

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Net investment in capital assets	8,901,531
Restricted:	
Guarantee agreement	250,000
Water operations	22,193,844
Sewer operations	17,525,763
Insurer agreement	4,874
Unrestricted	739,604
Total Net Position	49,615,616

**Total Liabilities, Deferred Inflows  
of Resources, and Net Position**

**\$244,125,781**

The accompanying notes are an integral part of these financial statements.

**CAPITAL REGION WATER**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2016**

<b>Operating Revenues:</b>	
User charges	\$ 38,184,824
Total operating revenues	38,184,824
<b>Operating Expenses:</b>	
Operating	13,802,610
Administrative	5,051,155
Depreciation	4,298,812
Total operating expenses	23,152,577
<b>Operating Income</b>	<b>15,032,247</b>
<b>Non-Operating Revenues (Expenses):</b>	
Investment income	2,192,129
Intergovernmental revenue	16,177
Gain on sale of easements	4,671,738
Miscellaneous expense	(240,506)
Interest expense	(7,713,386)
Total non-operating revenues (expenses)	(1,073,848)
<b>Change in Net Position Before Special Item</b>	<b>13,958,399</b>
Special item	92,933
<b>Change in Net Position</b>	<b>14,051,332</b>
<b>Net Position:</b>	
Beginning of year	35,564,284
End of year	<b>\$ 49,615,616</b>

The accompanying notes are an integral part of these financial statements.

# CAPITAL REGION WATER

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

<b>Cash Flows From Operating Activities:</b>	
Receipts from customers and users	\$ 38,629,187
Payments to employees	(6,434,957)
Payments to suppliers	(8,479,616)
Net cash provided by operating activities	<u>23,714,614</u>
<b>Cash Flows From Investing Activities:</b>	
Sales of investments, net	7,172,797
Investment income received	2,412,398
Net cash provided by investing activities	<u>9,585,195</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Proceeds from debt issuance	63,287,543
Payments to bond escrow agent	(71,218,741)
Payment of debt issuance costs	(1,116,657)
Payment for termination of investment contract	(258,000)
Payment for amendment to debt service forward delivery agreement	(401,000)
Acquisition and construction of capital assets	(15,818,870)
Interest paid	(6,997,903)
Principal paid on long-term debt	(305,939)
Intergovernmental revenue	64,192
Proceeds from sale of easements	4,671,738
Payment to bond insurer	(67,487)
Net cash used in capital and related financing activities	<u>(28,161,124)</u>
<b>Increase in Cash and Cash Equivalents</b>	<b>5,138,685</b>
<b>Cash and Cash Equivalents:</b>	
Beginning of year	<u>30,955,125</u>
End of year	<u>\$ 36,093,810</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income	\$ 15,032,247
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,298,812
Amortization of deferred outflows and deferred inflows	138,131
Miscellaneous nonoperating expense	(240,506)
Decrease in accounts receivable	1,622,573
Increase in due from the City of Harrisburg	(1,194,310)
Decrease in prepaid expenses	242,887
Increase in inventory	(5,053)
Increase in deferred outflows of resources for pensions	(902,595)
Increase in accounts payable and accrued liabilities	2,602,579
Increase in due to the City of Harrisburg	1,491,033
Decrease in compensated absences	(154,201)
Increase in other postemployment benefit liability	85,027
Increase in net pension liability	624,447
Increase in deferred inflows of resources for pensions	73,543
Net cash provided by operating activities	<u>\$ 23,714,614</u>

The accompanying notes are an integral part of these financial statements.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Harrisburg Sewerage Authority (Sewerage Authority) was incorporated June 3, 1957, under the provisions of the Municipality Authorities Act of 1945. On December 1, 1987, the Sewerage Authority's Articles of Incorporation were amended to change its name to the Harrisburg Water and Sewer Authority (Water Authority). On January 30, 1990, the Water Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to The Harrisburg Authority (Authority), also broadening its purpose and extending the term of its existence. In March 2014, the Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to Capital Region Water (CRW). The purpose of CRW is, among other things, to engage in public works projects relating to the ownership and operation of the water system and wastewater treatment and conveyance systems. CRW also maintains responsibility for winding down certain administrative, contractual, and minor operating activities of the previously owned resource recovery facility. Additionally, in 2007, CRW issued nonrecourse tax-exempt debt for other entities for the purpose of financing capital improvement projects, as further discussed in Note 9.

CRW has evaluated organizations, activities, and functions that should be included in CRW's financial statements. The basic criteria considered in making this determination include appointment of the Board of Directors, financial interdependence, and potential to provide specific financial benefits to, or impose specific financial burdens. CRW has not identified any entities that should be subject to evaluation for inclusion in CRW's reporting entity.

The City of Harrisburg (City) appoints CRW's Board of Directors (Board). However, the City bears no financial benefit or burden for CRW, and is not financially accountable for CRW. Therefore, the City does not include CRW in its financial statements as a component unit.

#### Basis of Presentation

All activities of CRW are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary for sound financial administration. Costs of construction, debt reduction, and CRW administration are financed or recovered through user charges, administration charges, and income on investments held by CRW.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of CRW are charges for water and wastewater treatment and conveyance systems services. Operating expenses include the cost of sales and services,

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Basis of Accounting

CRW's financial statements are presented using the accrual method of accounting, under which revenues are recorded in the period that they are earned and expenses are recorded when the liability is incurred. CRW follows the accounting and financial reporting standards issued by the Governmental Accounting Standards Board (GASB).

The accounting and financial reporting treatment applied to CRW is determined by its measurement focus. The transactions of CRW are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into "Net investment in capital assets"; "Restricted for" various purposes; and "Unrestricted" components.

### Cash and Cash Equivalents

For the purposes of the statement of cash flows, CRW considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

### Investments

With the exception of investment contracts, which are at contract value, CRW accounts for investments at fair value. CRW categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

### Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable trust indentures or other agreements.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Capital Assets

Capital assets in service and construction in progress are carried at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their acquisition value at the date of donation. Acquisition value is the price that CRW would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair value. Costs of studies that directly result in specific projects are capitalized. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the year ended December 31, 2016, interest expense of \$819,449, incurred during the construction phase of capital assets, is included as part of the capitalized value of the assets being constructed.

Depreciation expense for the Water Segment assets acquired prior to 1992 is calculated using a 2% annual rate. For acquisitions subsequent to this date, capital assets are depreciated using the straight-line method, over the estimated useful lives, as follows:

Land improvements	25 years
Water mains and related accessories	75 years
Water meter equipment	25 years
Buildings	50 years
Office equipment	5 to 20 years
Office furnishings	15 years
Operating equipment	10 to 50 years
Vehicles	7 years

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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Capital assets transferred to the Sewer Segment from the City, as part of the transition agreement (as further discussed in Note 5), are depreciated using the straight-line method, over the estimated useful lives, as follows:

Land improvements	30 to 40 years
Sewer mains and related accessories	40 to 100 years
Buildings and improvements	8 to 100 years
Infrastructure	50 to 110 years
Office equipment and furniture	5 to 15 years
Operating equipment	5 to 75 years
Vehicles	5 to 10 years

### Debt Financing Costs

Discounts/premiums are being amortized over the respective life of each bond issue using the effective interest rate method. Losses on debt refundings (including swap termination fees) are deferred and are being amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, deferred losses on refundings are reported as a deferred outflows of resources, and the unamortized discounts/premiums are reported as a reduction/addition from the outstanding bonds.

### Unearned Revenue

Unearned revenue, consisting of monies received from a debt service forward delivery agreement, is being amortized to interest income over the life of the agreement using a method that approximates the interest rate method.

### Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: Net investment in capital assets, restricted for various purposes, and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt and are also included in net investment of capital assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for various purposes consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

### Restricted Resources

When both restricted and unrestricted resources are available for use, it is CRW's policy to use restricted resources first, then unrestricted resources as they are needed.

### Use of Estimates

Management of CRW has made a number of estimates and assumptions relating to the reporting of amounts and disclosures in order to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

### Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

### Adoption of GASB Statements

GASB Statement No. 72, "*Fair Value Measurement and Application*," was effective for CRW for the year ended December 31, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. As a result of implementation of this Statement, the investment disclosures at Note 3 have been enhanced.

### Pending GASB Pronouncements

In June of 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*." This Statement addresses reporting by other postemployment benefit (OPEB) plans that administer benefits on behalf of governments. This Statement replaces GASB Statement No. 43. The provisions of GASB Statement No. 74 are effective for CRW's December 31, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." This Statement addressed reporting by governments that provide OPEB to their employees and for governments that finances OPEB for employees of other governments. This Statement replaces the requirements of GASB Statement No. 45. The provisions of GASB Statement No. 75 are effective for CRW's December 31, 2018 financial statements.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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In March of 2016, the GASB issued Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*” This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for CRW’s December 31, 2017 and 2018 financial statements.

In March of 2017, the GASB issued Statement No. 85, “*Omnibus 2017.*” This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of GASB Statement No. 85 are effective for CRW’s December 31, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, “*Certain Debt Extinguishment Issues.*” This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for CRW’s December 31, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, “*Leases.*” This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for CRW’s December 31, 2020 financial statements.

The effect of implementation of these Statements has not yet been determined.

## 2. SPECIAL ITEM

### Resource Recovery Segment

On December 23, 2013, CRW sold its resource recovery facility for \$129.898 million, which after taking into account \$8 million released under the Indenture netted \$121.898 million. These proceeds, along with funds transferred from the City, cash on hand, and contributions from the bond insurer were used to pay the costs associated with the sale, termination fees associated with the resource recovery segment derivative financial instruments, and the outstanding debt of the facility. Costs to wind down the facility continued throughout the year ended December 31, 2015. In accordance with an agreement with the bond insurer, any proceeds remaining, after all reasonable expenses are paid out of the resource recovery segment, will be paid to the bond insurer. CRW made a final payment to the bond insurer, in the amount of \$67,487, in July 2016. Subsequent to the final payment to the bond insurer, sufficient funds did not exist to satisfy the amount payable from the Resource Recovery Segment to the City. As such, this amount, \$160,420, was written off and reported as special item along with the final payment to the bond insurer.

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 3. DEPOSITS AND INVESTMENTS

Pennsylvania Act 72 provides for investment of public funds in certain authorized investment types including U.S. Treasury bills; other short-term obligations of the U.S. and federal agencies; short-term commercial paper issued by a public corporation; banker's acceptance; general obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency; 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 public funds for investment purposes.

CRW's permissible investments also include:

1. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a federal or state savings and loan association, or a state-licensed branch of a foreign bank;
2. Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 and meet the following criteria:
  - a. The investments of the company are permissible investments of CRW;
  - b. The investment company is managed in accordance with 17 CFR 270.2a-7 (related to Securities Exchange Commission registered money market funds);
  - c. The investment company is rated AAAM or better by Standard & Poor's (S&P)
3. Local government investment pools (LGIP), either state-administered or developed through intergovernmental agreement legislation, provided the local government investment pool restricts investments to CRW's permissible investments as previously noted and rates AAAM-G or better by S & P.

CRW's prohibited investments include any type of swap, derivative instrument, or stock of a corporation.

#### Deposits

The deposits of CRW at December 31, 2016 were as follows:

Cash and cash equivalents:	
Unrestricted	\$ 31,370,479
Restricted under trust indentures and guarantee agreement	<u>4,723,331</u>
	<u>\$ 36,093,810</u>

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. CRW’s deposits, which may include certificates of deposit, must be covered by the federal depository insurance corporation (FDIC) or collateralized. Collateral for CRW’s certificates of deposit must be held in the name of CRW. Short-term deposits, not collateralized under FDIC, are to be collateralized with securities held by a third-party in accordance with Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits. Acceptable collateral for CRW’s bank deposits includes only obligations of the U. S. Government, its agencies, and government sponsored entities rated at least in the two highest categories by two nationally recognized statistical rating organizations. The collateral, which may consist of pooled collateral, must be marked to market no less than weekly, and CRW must receive monthly statements. As of December 31, 2016, CRW’s book balance was \$36,093,810 and the bank balance was \$36,036,243. Of the bank balance, \$612,268 was covered by FDIC insurance and \$35,423,975 was collateralized under the Act.

### Investments

The investments of CRW at December 31, 2016 were as follows:

Restricted:	
Money market funds	\$ 27,960,543
U.S. Government agency obligations	3,286,833
Investment contracts	<u>6,300,000</u>
Total	<u>\$ 37,547,376</u>

With the exception of the investment contracts which are at contract value, all investments are considered Level 1.

*Custodial Credit Risk* – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. CRW’s policy is for cash equivalents to be invested in a local government investment program pool or money market funds. Investments in U.S. Treasury and U.S. government agency obligations are to be held by the financial institution in CRW’s name. The financial institution must have a minimum capital equity balance of \$25 million and at least five years of operation. CRW’s investment in money market funds are not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form. The remainder of CRW’s

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

investments are held by the counterparty's trust department or agent not in CRW's name for the benefit of and as security for the bondholders.

*Concentration of Credit Risk* - CRW permissible investments are restricted to avoid investment losses by a specific issuer. CRW has the following limits for both the type of investment and the maximum amount of an investment type for a particular issuer.

Investment Type	Maximum Allocation (at time of purchase)	Maximum Investment per Issuer (at time of purchase)
U.S. government securities	100%	N/A
U.S. government agencies and instrumentalities	100%	50%
General obligation Pennsylvania municipal bonds	10%	N/A
Bank certificates of deposit	50%	50%
Negotiable certificates of deposit	30%	10%
SEC-registered money market funds	100%	N/A
Local government investment pools	100%	N/A

More than five percent of CRW's investments are held as follows:

	Fair (Contract) Value	% of Total
Federal Home Loan Bank Discount Notes	\$ 2,284,701	6.10%
Bank of America Investment Contracts	6,300,000	16.80%

*Credit Risk* – CRW has a formal policy that would limit investment choices to only those types of investments previously noted. CRW's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2016:

	Fair (Contract) Value	Rating
Money market funds	\$ 27,960,543	AAA
U.S. Government agency obligations	3,286,833	AAA
Investment contracts	6,300,000	BBB

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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*Interest Rate Risk* – CRW has a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. CRW's investments are to be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector; limiting investments in securities that have higher credit risks; investing in securities with varying maturities; and continuously investing a portion of the portfolio in readily available funds such as LGIPs or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following is a list of CRW's money market and fixed income investments and their related average maturities:

	Fair (Contract) Value	Investment Maturity (in Years)	
		Less than 1	Greater than 10
Money market funds	\$27,960,543	\$27,960,543	\$ -
U.S. government agency obligations	3,286,833	3,286,833	-
Investment contracts	6,300,000	-	6,300,000
Total	<u>\$37,547,376</u>	<u>\$31,247,376</u>	<u>\$ 6,300,000</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance at January 1, 2016	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	50,138,885	9,924,952	(48,064,970)	11,998,867
Total capital assets, not being depreciated	50,500,306	9,924,952	(48,064,970)	12,360,288
Capital assets, being depreciated:				
Land improvements	1,497,605	-	-	1,497,605
Buildings and improvements	68,103,289	48,011,752	-	116,115,041
Furniture and fixtures	888,446	39,567	-	928,013
Machinery and equipment	133,773,740	2,398,527	-	136,172,267
Total capital assets, being depreciated	204,263,080	50,449,846	-	254,712,926
Less: accumulated depreciation	(113,993,868)	(4,298,812)	-	(118,292,680)
Total capital assets being depreciated, net	90,269,212	46,151,034	-	136,420,246
Total capital assets, net	\$ 140,769,518	\$ 56,075,986	\$ (48,064,970)	\$ 148,780,534

### 5. DUE FROM/DUE TO THE CITY

In November 2013, the CRW and the City entered into a transfer agreement related to the Sewer Collection System (transfer agreement) and a transition agreement related to the Water, Wastewater, and Stormwater Systems (transition agreement). In conjunction with the transfer and transition agreements, CRW and the City entered into a shared services agreement whereby the City agreed to perform certain services with respect to and for the benefit of the water system and combined sewer system and CRW agreed to perform certain services with respect to and for the benefit of the City's sanitation fund, Green Infrastructure Projects, and other initiatives. The services performed by the City under the shared services agreement relate to payment processing services, information technology services, operations and revenue services, and public works services. The services performed by CRW under the shared services agreement include revenue billing and collection functions for the City's sanitation fund including the implementation of a lockbox system. Each of these services, including the term of the services, is detailed in a shared services schedule incorporated into the shared services agreement.

CRW and the City, in advance of performing the services, are to prepare a budget for the total cost of the services and the total cost is to be agreed upon by both parties. Within 60 days after the end of the term of each shared service, CRW and the City are to reconcile the

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

actual costs of providing the services to the budgeted costs. Payments due to either CRW or the City are payable within 30 days of the finalization of the reconciliation. A reconciliation of costs related to street sweeping for the years ended December 31, 2015 and 2016 was performed in August 2017 and the associated receivables and payables related to these years have been recorded.

Amounts due from/to the City consist of the following at December 31, 2016:

	Water Segment	Sewer Segment	Admin Segment
Due from City:			
Cash	\$ 235,161	\$ 225,082	\$ -
Investments - workers' compensation	-	726,340	-
Miscellaneous receivables	58,735	-	4,440
Due from City Capital Projects Fund	83,400	-	-
2004 loan and duplicate transfers for payment of cash disbursements	-	563,971	-
ACH receipts	94,128	30,838	-
Credit card receipts	7,084	3,850	-
Shared services	-	-	491,294
Disaster Grants	105,693	365,782	-
	\$ 584,201	\$ 1,915,863	\$ 495,734
Due to the City:			
Due to City Capital Projects Fund	\$ (9,511)	\$ -	\$ -
Due to City General Fund	(104,158)	(170,978)	-
Debit/credit transfer balances	(1,004,351)	(8,415)	-
Other postemployment benefit liabilities	(51,869)	(1,680,150)	-
Disputed accounts	(226,672)	(108,420)	-
Workers' compensation reserve	-	(121,143)	-
Utility refunds	-	(1,667)	-
Shared services	-	(380,922)	-
	\$ (1,396,561)	\$ (2,471,695)	\$ -

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 6. UNEARNED REVENUE

CRW had entered into a forward delivery investment agreement with a financial intermediary for the Water segment that resulted in an upfront payment of interest earned on amounts placed in the water debt service sinking fund. In exchange for a cash payment to CRW at the inception of the agreement totaling approximately \$1.765 million, the financial intermediary has the right, under the debt service forward delivery agreement, to invest the funds on hand in the sinking fund and retain the investment earnings. The amount received was recorded as unearned revenue in CRW's financial statements because the substance of this agreement effectively is to pay CRW currently for interest that normally would be earned in later years. A portion of the debt service forward delivery agreement was terminated with First Amendment to the Debt Service Forward Delivery Agreement effective April 2016 with the issuance of the 2016 Series A and Series B Water Revenue Refunding Bonds, as discussed in Note 7. As part of this refunding, CRW paid a \$401,000 termination fee. The termination fee, netted against the remaining unearned revenue, will be amortized over the remaining life of the agreement. The unearned revenue at December 31, 2016 is \$392,829.

**CAPITAL REGION WATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

**7. LONG-TERM DEBT**

CRW has issued various revenue serial and term bonds and notes to finance various projects and refundings. A schedule of CRW's bonds and notes outstanding at December 31, 2016 follows:

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2016 Water Revenue Refunding Bonds Series A	\$ 49,735,000	2017 - 2029	2.00% - 5.00%	1) Currently refund the Water Revenue Refunding Bonds, Series A of 2002, Variable Rate Water Revenue Refunding Bonds, Series B of 2002, and Variable Rate Water Revenue Refunding Bonds, Series C of 2002; 2) currently refund the Water Revenue Refunding Bonds, Series of 2004; 3) advance refund a portion of the Water Revenue Refunding Bonds, Series of 2008; 4) fund a debt service reserve fund; 5) pay the costs of insuring a portion of the Water Revenue Refunding Bonds, Series A of 2016; and 6) pay the costs of issuance of the 2016 Bonds.
Series B	2,440,000	2017	3.00%	
2015 Water System Improvement General Obligation Note	5,600,000	2017 - 2036	1.00%	Provide an enhanced geographic information system, restore reliability in the supervisory control and data acquisition system, and install a new water main and associated appurtenances.
2014 Sewer Revenue Bonds Series B	29,660,000	2017 - 2041	variable	Finance a portion of the engineering, design, and construction of improvements to CRW's wastewater treatment facility and various expenditures relating to CRW's long-term control plan, and CRW's geographic information system project.
2014 Sewer Revenue Note Series C	21,500,000	2014 - 2035	1.00% - 1.275%	Payment of, and reimbursement to CRW for, certain capital expenditures including those related to engineering, design, and construction of improvements to CRW's wastewater treatment facility and various expenditures relating to CRW's long-term control plan, and CRW's geographic information system project.

**CAPITAL REGION WATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

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	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2009 Sewer Revenue Note	1,880,000	2011 - 2031	1.27% - 2.55%	Finance capital improvements and replacements to CRW's wastewater treatment facility.
2008 Water Revenue Bonds	69,420,000	2024 - 2031	4.88% - 5.25%	Currently refund the outstanding balance of CRW's Variable Rate Water Revenue Refunding Bonds, Series A of 2003, and fund a swap termination payment.
1998 Sewer Revenue Note Series B	1,864,000	1999 - 2017	1.536% - 3.071%	Finance projects related to the sewage collection system.

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2016

The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2016:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Bonds outstanding:				
Water Revenue Bonds:				
Series A of 2016	\$ 4,096,100	\$ 7,017,000	\$ 7,714,000	\$ 7,716,000
Series B of 2016	2,513,200	-	-	-
Series of 2008	3,370,144	3,370,144	3,370,144	3,370,144
Sewer Revenue Bonds:				
Series B of 2014 (A)	855,738	880,202	910,665	935,828
Total principal and interest, bonds	<u>\$ 10,835,182</u>	<u>\$ 11,267,346</u>	<u>\$ 11,994,809</u>	<u>\$ 12,021,972</u>
Less:				
Interest				
Unamortized premium				
Total bonds outstanding, net of discount				
Notes payable:				
Water System Improvement General Obligation Note, Series of 2015	\$ 309,049	\$ 309,049	\$ 309,049	\$ 309,049
Sewer Revenue Notes:				
Series C of 2014	1,054,468	1,186,527	1,186,527	1,186,527
Series of 2009	117,119	114,120	114,120	114,120
Series B of 1998	73,665	-	-	-
Total principal and interest, notes	<u>\$ 1,554,301</u>	<u>\$ 1,609,696</u>	<u>\$ 1,609,696</u>	<u>\$ 1,609,696</u>
Less:				
Interest				
Total notes payable				

(A) - These bonds bear interest at a LIBOR index rate plus spread, .77 percent at December 31, 2016, plus LOC facility and remarketing fee.

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<u>2021</u>	<u>2022 to 2026</u>	<u>2027 to 2031</u>	<u>2032 to 2036</u>	<u>2037 to 2041</u>	<u>Total</u>
\$ 7,713,500	\$ 23,324,500	\$ 6,882,750	\$ -	\$ -	\$ 64,463,850
-	-	-	-	-	2,513,200
3,370,144	32,097,801	58,761,413	-	-	107,709,934
969,565	5,342,679	6,356,783	7,648,661	9,303,225	33,203,346
<u>\$ 12,053,209</u>	<u>\$ 60,764,980</u>	<u>\$ 72,000,946</u>	<u>\$ 7,648,661</u>	<u>\$ 9,303,225</u>	207,890,330
					60,335,330
					<u>(7,327,576)</u>
					<u>\$ 154,882,576</u>
\$ 309,049	\$ 1,545,245	\$ 1,545,245	\$ 553,384	\$ -	\$ 5,189,119
1,186,527	6,051,288	6,053,300	4,319,047	-	22,224,211
114,120	570,598	298,120	-	-	1,442,317
-	-	-	-	-	73,665
<u>\$ 1,609,696</u>	<u>\$ 8,167,131</u>	<u>\$ 7,896,665</u>	<u>\$ 4,872,431</u>	<u>\$ -</u>	28,929,312
					2,902,032
					<u>\$ 26,027,280</u>

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance at January 1, 2016	Additions	Amortization	Reductions	Ending Balance at December 31, 2016	Amounts Due Within One Year
Notes payable	\$ 23,542,499	\$ 2,790,720	\$ -	\$ (305,939)	\$ 26,027,280	\$ 1,323,511
Bonds payable	166,201,000	52,175,000	-	(70,821,000)	147,555,000	4,770,000
Compensated absences	578,562	596,110	-	(750,311)	424,361	170,386
Total long-term liabilities	190,322,061	55,561,830	-	(71,877,250)	174,006,641	6,263,897
Less:						
Unamortized (discount)/ premium	(525,477)	8,321,823	(257,537)	(211,233)	7,327,576	-
	<u>\$ 189,796,584</u>	<u>\$ 63,883,653</u>	<u>\$ (257,537)</u>	<u>\$ (72,088,483)</u>	<u>\$ 181,334,217</u>	<u>\$ 6,263,897</u>

In July 2014, CRW issued Sewer Revenue Bonds, Series of 2014B, Variable Rate Demand Bonds (Series of 2014B Bonds) in the amount of \$29,660,000 to be applied to finance the costs of a project consisting of a portion of the engineering, design, and construction of improvements to CRW's advanced wastewater treatment facility and various expenditures relating to CRW's long-term control plan and CRW's geographic information system project; fund the various reserves, if required; the payment of interest during construction, if required; and the payment of costs of issuance of the Series of 2014B Bonds. The Series of 2014B Bonds are secured by a letter of credit issued by Manufacturers and Traders Trust Company, which expires (unless extended) on July 10, 2017. Upon issuance and prior to the conversion date to a different mode, the Series of 2014B Bonds other than pledged bonds will bear interest at the weekly rate, which will be a variable rate established by the remarking agent. In no event shall the weekly rate for the Series of 2014B Bonds exceed ten percent per annum unless increased in accordance with the terms of the indenture. As set forth in the indenture, the Series of 2014B Bonds may be converted or reconverted to bear interest in a weekly mode, monthly mode, multiannual mode, or bank purchase rate mode or converted to a fixed rate mode.

In April 2017, CRW issued Sewer System Revenue Bonds, Series 2017 (Series 2017 Bonds) in the amount of \$43,915,000, to 1) currently refund the Sewer Revenue Bonds, Series of 2014B, 2) fund certain miscellaneous capital expenditures with respect to CRW's sewer system, 3) fund a debt service reserve fund, and 4) pay the costs of issuance of the Series 2017 Bonds.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Defeasance of Debt

The current refunding of the CRW's Water Revenue Refunding Bonds, Series A of 2002, Variable Rate Water Revenue Refunding Bonds, Series B of 2002, Variable Rate Water Revenue Refunding Bonds, Series C of 2002, and Water Revenue Refunding Bonds, Series of 2004 and the partial advance refunding of the Water Revenue Refunding Bonds, Series of 2008 decreased CRW's total debt service by \$11,699,074 through the year 2029 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$8,771,388.

### **8. SEGMENT INFORMATION**

CRW supports three separate segments. The Water Segment accounts for the provision of basic water service to customers of the Harrisburg Water System. The Sewer Segment accounts for the provision of wastewater collection, conveyance, and treatment to customers of the Harrisburg Wastewater System. The Resource Recovery Segment accounts for the completion of the activities at the Harrisburg Resource Recovery and Steam Generating Facility (resource recovery facility), which converted waste into energy. Selected segment information as of and for the year ended December 31, 2016 is as follows:

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2016

<b>CONDENSED BALANCE SHEET</b>	Water Segment	Sewer Segment	Resource Recovery Segment
<b>Assets:</b>			
Current assets:			
Other current assets	\$ 20,823,666	\$ 17,916,207	\$ 4,874
Due from the City of Harrisburg	584,201	1,915,863	-
Due from other funds	1,121,233	61,283	-
Total current assets	22,529,100	19,893,353	4,874
Restricted assets	22,829,339	19,191,368	-
Capital assets	62,461,286	85,978,926	-
Total Assets	107,819,725	125,063,647	4,874
Deferred Outflows of Resources	8,977,580	247,554	-
Total Assets and Deferred Outflows of Resources	<u>\$ 116,797,305</u>	<u>\$ 125,311,201</u>	<u>\$ 4,874</u>
<b>Liabilities:</b>			
Current liabilities:			
Other current liabilities	\$ 1,749,370	\$ 3,437,989	\$ -
Due to the City of Harrisburg	1,358,140	1,471,861	-
Total current liabilities	3,107,510	4,909,850	-
Liabilities payable from restricted assets	7,081,620	1,686,011	-
Due to the City of Harrisburg	38,421	999,834	-
Noncurrent liabilities	126,356,212	49,608,893	-
Total Liabilities	136,583,763	57,204,588	-
Deferred Inflows of Resources	17,510	21,829	-
Net Position:			
Net investment in capital assets	(41,997,812)	50,559,021	-
Restricted	3,395,656	3,699,032	4,874
Unrestricted	18,798,188	13,826,731	-
Total Net Position	(19,803,968)	68,084,784	4,874
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 116,797,305</u>	<u>\$ 125,311,201</u>	<u>\$ 4,874</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION</b>			
Operating revenues	\$ 21,056,959	\$ 17,127,865	\$ -
Operating expenses:			
Operating	4,942,306	8,685,020	175,284
Administration	2,472,228	2,564,486	-
Depreciation	2,191,148	2,064,807	-
Total operating expenses	9,605,682	13,314,313	175,284
Operating Income (Loss)	11,451,277	3,813,552	(175,284)
Non-operating revenues (expenses):			
Investment income	2,093,457	90,067	405
Intergovernmental revenue	-	16,177	-
Gain on sale of easements	4,671,738	-	-
Miscellaneous income (expense)	(245,996)	(10,610)	-
Interest expense	(7,662,476)	(50,910)	-
Total non-operating revenues (expenses)	(1,143,277)	44,724	405
Change in Net Position Before Special Item	10,308,000	3,858,276	(174,879)
Special item	-	-	92,933
Change in Net Position	10,308,000	3,858,276	(81,946)
Net position - January 1, 2016	(30,111,968)	64,226,508	86,820
Net position - December 31, 2016	<u>\$ (19,803,968)</u>	<u>\$ 68,084,784</u>	<u>\$ 4,874</u>

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2016

<u>CONDENSED STATEMENT OF CASH FLOWS</u>	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>
Net cash provided by (used in) operating activities	\$ 12,952,214	\$ 10,527,199	\$ (373,021)
Net cash provided by (used in) investing activities	13,502,994	(3,926,404)	405
Net cash used in capital and related financing activities	<u>(17,048,634)</u>	<u>(11,010,934)</u>	<u>(67,487)</u>
Increase (decrease) in cash and cash equivalents	9,406,574	(4,410,139)	(440,103)
Cash and cash equivalents, January 1, 2016	<u>10,856,082</u>	<u>18,258,329</u>	<u>444,977</u>
Cash and cash equivalents, December 31, 2016	<u>\$ 20,262,656</u>	<u>\$ 13,848,190</u>	<u>\$ 4,874</u>

At December 31, 2016, CRW has a net position deficit in the Water segment, primarily because CRW has extended the length of its debt service at various times and the costs associated with those extensions exceeding the depreciation expense on the Water System. Management anticipates that the deficit will be reduced through future profitability improvements.

**9. NON-RECOURSE DEBT ISSUE**

CRW participates in a single bond issue for which it has limited liability. CRW serves as a financing conduit. Although CRW is a party to the trust indenture with the associated Trustee, the agreement is structured such that there is no recourse against CRW in the case of default. As such, the corresponding debt is not reported in CRW's balance sheet. The following non-recourse debt issue was outstanding at December 31, 2016:

Harrisburg University, Series B of 2007	<u>\$ 57,650,000</u>
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In September 2017, the Harrisburg University, Series B of 2007, were refunded and called for redemption.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 10. COMMITMENTS AND CONTINGENCIES

CRW is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of CRW at December 31, 2016.

CRW had guaranteed a line-of-credit on behalf of the National Civil War Museum limited to \$250,000. In November 2014, the National Civil War Museum refinanced the line-of-credit to a term loan. The term loan is also guaranteed by a second lien on the collection of artifacts. As required by the agreement, CRW has placed \$250,000 in a separate account and this amount is included on the balance sheet as restricted cash and cash equivalents. In the event the Bank utilizes CRW's deposit to pay sums due under the term loan, the National Civil War Museum agrees to reimburse CRW by monthly depositing an amount equal to one thirty-sixth of the amount drawn from the account, together with interest calculated on the unpaid balance thereof at prime rate plus one percent. The term loan had an outstanding balance of \$444,270 at June 30, 2016.

CRW has entered into various construction and professional services contracts related to the construction of the various facilities. The outstanding commitment under these contracts at December 31, 2016, excluding amounts in accounts payable, was approximately \$7.3 million.

In April 2015, CRW amended its administrative office lease. The amendment extended the lease for a five-year period, beginning in September 2015. The lease may be renewed at the end of the five-year period, provided that CRW gives notice six months prior to the expiration of the initial five-year period. Future obligations under the amended lease are:

2017	\$	199,171
2018		201,478
2019		203,785
2020		136,882
		<hr/>
	\$	<u>741,316</u>

### 11. RISK MANAGEMENT

CRW is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which CRW carries commercial insurance. During the last three years, insurance settlements did not exceed insurance coverage.

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 12. PENSION PLAN

#### Plan Description

Pursuant to a transition agreement, water and sewer employees of the City transitioned to CRW during November 2013. Prior to the transition, the water and sewer employees participated in the City's non-uniform defined benefit plan which was administered by Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). As part of the transition, CRW created a spin-off plan that is being separately administered by PMRS. The Plan has been established to cover all full-time employees. Employees become eligible for participation in a plan immediately upon employment. CRW's pension plan is a defined benefit pension plan controlled by the provisions of Resolution 2013-015 adopted pursuant to Act 15 of 1974. The Plan participates in the PMRS who acts as a common investment and administrative agent for municipalities in the Commonwealth of Pennsylvania. PMRS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. The report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165, or via PMRS' website.

#### Benefits Provided

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, grants the authority to establish and amend the benefit terms to CRW's Board.

*Normal Benefit* – Active members are eligible for normal retirement at age of 65. The benefits provided by the plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. Final average salary is based upon the annual average compensation paid during the highest three years of employment. A member is 100% vested after five years of credited service.

*Early Retirement Benefit* – Early retirement may be taken at age of 55 with 10 years of service. The benefit will be actuarially reduced for each year or partial year prior to normal retirement age that early retirement takes place.

*Survivor Benefit* – If a member is eligible to retire at the time of death, their beneficiary receives the present value of the accrued benefit.

*Disability Benefit* – In the instance of a service related disability, a 50% disability benefit, offset by workers' compensation benefits, is provided to a member who is unable to perform gainful employment. In the instance of a non-service related disability, a 30% disability

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

*Cost-of-Living Adjustments* – CRW has the option to award postretirement adjustments based on investment performance.

### Plan Membership

Membership of the Plan consisted of the following at the most recent actuarial valuation date of December 31, 2014:

Active employees	90
Inactive employees and beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>90</u>

### Funding Policy and Contributions

All full-time employees are required to contribute five percent of their annual covered salary to the Plan, with an option to contribute up to 15%. CRW's contributions to the Plan are governed by Act 205 which mandates minimum actuarial funding based upon the Plan's biennial actuarial valuation. During the year ended December 31, 2015, CRW made a contribution to the Plan in the amount of \$227,577. The MMO for the year ended December 31, 2015 was \$204,394. Because the 2015 contribution was immaterial, it was not reported as a deferred outflow of resources at December 31, 2015. During the year ended December 31, 2016, CRW made a contribution to the Plan in the amount of \$240,302. The MMO for the year ended December 31, 2016 was \$240,302. The 2016 contribution is reported as a deferred outflow of resources at December 31, 2016.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

### Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of CRW for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 9,287,332	\$ 9,288,441	\$ (1,109)
Changes for the year:			
Service cost	613,689	-	613,689
Interest	542,606	-	542,606
Changes of assumptions	(73,543)	-	(73,543)
Contributions - employer	-	227,577	(227,577)
Contributions - employees	-	324,831	(324,831)
PMRS investment income	-	527,537	(527,537)
Market value investment income	-	(598,717)	598,717
Benefit payments	(2,949)	(2,949)	-
Administrative expense	-	(24,032)	24,032
Net changes	<u>1,079,803</u>	<u>454,247</u>	<u>625,556</u>
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	<u>\$ 10,367,135</u>	<u>\$ 9,742,688</u>	<u>\$ 624,447</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>94.0%</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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*Actuarial Assumptions* - The total pension liability was determined by an actuarial valuation performed on January 1, 2015, with liabilities measured at December 31, 2015, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	2.8% - 7.05%*
* includes inflation rate of 3%	
Cost of living adjustments	2.8%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2009 to December 31, 2013

Preretirement mortality:

Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA  
Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years

Postretirement mortality:

Males: RP 2000 Male Annuitant table projected 5 years with Scale AA  
Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

*Changes in Actuarial Assumptions* –The actuarial assumptions noted above were used for the prior measurement date of December 31, 2014 except for: (1) projected salary increases were 3.0% through 8.3%, (2) the PMRS Experience Study was for the period January 1, 2005 to December 31, 2008, (3) the pre-retirement mortality table for males was RP 2000 with one year set back and for females was RP 2000 with five year set back, and (4) the postretirement mortality table for males and females was RP 2000 Sex-Distinct Mortality Table. These assumption changes decreased the total pension liability by approximately \$73,543.

*Long-Term Expected Rate of Return* – The PMRS System’s (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at [www.pmr.state.pa.us](http://www.pmr.state.pa.us). Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%. The rationale for the difference between the System’s long-term expected rate of return and the discount rate can be found at [www.pmr.state.pa.us](http://www.pmr.state.pa.us).

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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*Discount Rate* – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities’ total pension liability as of December 31, 2015 was 5.5%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System’s long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System’s long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate* – The following presents the net pension liability of the Plan calculated using the discount rate described above, as well as what the Plan’s net pension liability (asset) would be if it was calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
<u>\$ 2,265,792</u>	<u>\$ 624,447</u>	<u>\$ (780,297)</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, CRW recognized pension expense of \$173,828. At December 31, 2016, CRW reported deferred outflows of resources and deferred inflows of resources related to its pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,339	\$ -
Changes of assumptions	-	66,857
CRW contributions subsequent to the measurement date	240,302	-
Net difference between projected and actual earnings on pension plan investments	<u>516,137</u>	<u>-</u>
Total	<u>\$ 757,778</u>	<u>\$ 66,857</u>

The differences in CRW's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. CRW contributions subsequent to the measurement date at December 31, 2016 will be recorded as a reduction to the pension liability during the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2016 will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2017	\$ 125,594
2018	125,594
2019	125,593
2020	113,208
2021	(6,537)
Thereafter	<u>(32,833)</u>
	<u>\$ 450,619</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 13. OTHER POSTEMPLOYMENT BENEFIT PLAN

#### Plan Description

In addition to the pension benefits described in Note 12, CRW provides certain postemployment healthcare benefits to its employees who transferred from the City to CRW on November 4, 2013 through one single-employer, defined benefit OPEB plan. All other CRW employees are not eligible for OPEB. This OPEB plan does not issue a separate report.

Eligibility - Any employee who transferred from the City to CRW on November 4, 2013 that was eligible for the City's Non-Uniformed Pension Plan benefits and has attained age 60 with at least 20 years of service.

Benefits - Medical, prescription drug, dental, vision, and life coverage are provided to the member, along with a spouse and/or eligible dependents. CRW pays the full premium for life insurance in the amount of \$5,000 for the member only. CRW pays the full medical premium for single coverage less 2% of the member's final salary. The member and spouse are eligible until the member reaches Medicare age. Life insurance and reimbursements for Medicare Supplement coverage will continue for the member's life.

If a member is disabled after completion of 20 years of service, attained age 55 and completed 20 years of service, or attained age 65 and completed 15 years of service, CRW pays 60% of the medical premium for single coverage until the member reaches Medicare age. Otherwise, the member must pay 100% of medical premium for single coverage. For any coverage other than single, the member must pay any difference between the premiums. The member must pay the full premium for prescription drug, dental, and vision coverage. Upon reaching Medicare age, CRW will reimburse a maximum monthly amount specified in the table below for a Medicare Supplement plan.

2017	\$ 260
2018	270
2019	280
2020	290
2021	300
2022	310
2023	320
2024	330
2025	340
2026 and later	350

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Funding Policy and Annual OPEB Costs

CRW's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2016, CRW contributed \$3,324 to the OPEB plan.

CRW opted to not fully fund the OPEB contribution and will continue to fund the annual OPEB cost on a pay-as-you-go basis.

CRW's annual OPEB costs (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of government accounting standards. The ARC represents the amount needed to fund the cost of benefits attributed to the current year, plus an amortized portion of unfunded liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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Information as of the latest actuarial valuation follows:

Valuation date	1/1/2016
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.50%
Medical inflation:	
2016	6.5%
2017	6.0%
2018 - 2020	5.5%
Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model	
Amortization period	30 year
Amortization method	Level dollar, open period
Actuarial value of assets	Market value of assets
Inflation rate	None
Salary increases	5.0%

### Annual OPEB Cost and Net OPEB Obligation

CRW's estimated annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2016 were as follows:

Annual required contribution	\$ 91,003
Interest on net OPEB obligation	7,276
Adjustment to ARC	(9,928)
Annual OPEB cost	88,351
Contribution made	(3,324)
Change in net OPEB obligation	85,027
Net OPEB Obligation, beginning	161,707
Net OPEB Obligation, ending	<u><u>\$ 246,734</u></u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

### Three-Year Trend Information

<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2016	\$ 88,351	3.76%	\$ 246,734
12/31/2015	74,456	6.32%	161,707
12/31/2014	75,654	3.41%	92,054

<u>Year Ending</u>	<u>Annual OPEB Required Contribution (ARC)</u>	<u>Actual OPEB Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/2016	\$ 91,003	\$ 3,324	3.65%
12/31/2015	75,965	4,803	6.32%
12/31/2014	75,965	2,591	3.41%

### Funded Status and Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) - Entry Age (b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>of Covered Payroll (b-a/c)</u>
1/1/2016	\$ -	\$ 920,931	\$ 920,931	0.00%	\$ 2,210,073	41.67%
1/1/2013	-	741,374	741,374	0.00%	2,249,418	32.96%

Note: Valuation as of January 1, 2013 represents initial valuation for the Plan.

## 14. SUBSEQUENT EVENTS

CRW entered into various construction and professional services contracts in 2017 related to the construction of the various facilities. The commitment under these contracts is approximately \$20 million.

**Required Supplementary  
Information**

**CAPITAL REGION WATER**  
 REQUIRED SUPPLEMENTARY INFORMATION -  
 SCHEDULE OF CHANGES IN THE PENSION PLAN'S  
 NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

	2016*	2015
<b>Total Pension Liability:</b>		
Service cost	\$ 613,689	\$ 334,095
Interest	542,606	401,252
Changes of assumptions	(73,543)	-
Differences between expected and actual experience	-	1,637
Transfers	-	3,135,289
Benefit payments, including refunds	(2,949)	(16,536)
<b>Net Changes in Total Pension Liability</b>	1,079,803	3,855,737
<b>Total Pension Liability - Beginning</b>	9,287,332	5,431,595
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 10,367,135</u>	<u>\$ 9,287,332</u>
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 227,577	\$ 143,879
Contributions - employees	324,831	251,842
Net investment income (loss)	(71,180)	416,222
Transfers	-	3,135,289
Benefit payments, including refunds	(2,949)	(16,536)
Administrative expense	(24,032)	(20,178)
<b>Net Change in Plan Fiduciary Net Position</b>	454,247	3,910,518
<b>Plan Fiduciary Net Position - Beginning</b>	9,288,441	5,377,923
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 9,742,688</u>	<u>\$ 9,288,441</u>
<b>Net Pension Liability (Asset) - Ending (a-b)</b>	<u>\$ 624,447</u>	<u>\$ (1,109)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<u>94.0%</u>	<u>100.0%</u>
<b>Covered Employee Payroll</b>	<u>\$ 5,255,163</u>	<u>\$ 4,617,165</u>
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	11.88%	-0.02%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, CRW is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plan.

**CAPITAL REGION WATER**  
**REQUIRED SUPPLEMENTARY INFORMATION -**  
**SCHEDULE OF PENSION CONTRIBUTIONS**

	<u>2016*</u>	<u>2015</u>
Actuarially determined contribution under Act 205	\$ 204,394	\$ 143,479
Contribution in relation to the actuarially determined contribution	<u>227,577</u>	<u>143,879</u>
Contribution deficiency (excess)	<u>\$ (23,183)</u>	<u>\$ (400)</u>
Covered employee payroll	<u>\$ 5,255,163</u>	<u>\$ 4,617,165</u>
Contributions as a percentage of covered employee payroll	4.33%	3.12%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, CRW is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plan.

# CAPITAL REGION WATER

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

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### 1. ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Methods and assumptions used to determine the contribution rate required under Act 205 for the year ended December 31, 2015 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Postretirement cost-of-living adjustment increase	3%, subject to plan limitations
Preretirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Postretirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

## **Supplementary Information**

**CAPITAL REGION WATER**  
**COMBINING BALANCE SHEET**  
DECEMBER 31, 2016

<b>Assets and Deferred Outflows of Resources</b>	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>	<u>Working Capital Fund</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 16,248,900	\$ 13,388,615	\$ 4,874	\$ 1,728,090	\$ -	\$ 31,370,479
Accounts receivable, net of allowance for uncollectible accounts of \$3,343,436, \$1,454,911, zero, and zero	4,443,080	3,940,539	-	7,564	-	8,391,183
Due from the City of Harrisburg	584,201	1,915,863	-	495,734	-	2,995,798
Prepaid expenses	131,686	97,889	-	61,609	-	291,184
Inventory	-	489,164	-	-	-	489,164
Due from (to) other funds	1,121,233	61,283	-	-	(1,182,516)	-
Total current assets	<u>22,529,100</u>	<u>19,893,353</u>	<u>4,874</u>	<u>2,292,997</u>	<u>(1,182,516)</u>	<u>43,537,808</u>
Restricted assets:						
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	4,013,756	459,575	-	250,000	-	4,723,331
Investments - restricted under trust indentures	18,815,583	18,731,793	-	-	-	37,547,376
Total restricted assets	<u>22,829,339</u>	<u>19,191,368</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>42,270,707</u>
Noncurrent assets:						
Capital assets, not being depreciated	5,565,403	6,794,885	-	-	-	12,360,288
Capital assets, being depreciated, net of accumulated depreciation of \$51,900,413, \$66,316,169, zero, and \$76,098	56,895,883	79,184,041	-	340,322	-	136,420,246
Total noncurrent assets	<u>62,461,286</u>	<u>85,978,926</u>	<u>-</u>	<u>340,322</u>	<u>-</u>	<u>148,780,534</u>
Total Assets	<u>107,819,725</u>	<u>125,063,647</u>	<u>4,874</u>	<u>2,883,319</u>	<u>(1,182,516)</u>	<u>234,589,049</u>
<b>Deferred Outflows of Resources:</b>						
Deferred loss on refunding	8,778,954	-	-	-	-	8,778,954
Deferred outflows of resources for pensions	198,626	247,554	-	311,598	-	757,778
Total Deferred Outflows of Resources	<u>8,977,580</u>	<u>247,554</u>	<u>-</u>	<u>311,598</u>	<u>-</u>	<u>9,536,732</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 116,797,305</u>	<u>\$ 125,311,201</u>	<u>\$ 4,874</u>	<u>\$ 3,194,917</u>	<u>\$ (1,182,516)</u>	<u>\$ 244,125,781</u>

(Continued)

**CAPITAL REGION WATER**  
**COMBINING BALANCE SHEET**  
DECEMBER 31, 2016  
(Continued)

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>						
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 1,687,328	\$ 3,380,657	\$ -	\$ 234,720	\$ -	\$ 5,302,705
Current portion of compensated absences	62,042	57,332	-	51,012	-	170,386
Due to the City of Harrisburg	1,358,140	1,471,861	-	-	-	2,830,001
Due to other funds	-	-	-	1,182,516	(1,182,516)	-
Total current liabilities	<u>3,107,510</u>	<u>4,909,850</u>	<u>-</u>	<u>1,468,248</u>	<u>(1,182,516)</u>	<u>8,303,092</u>
Liabilities payable from restricted assets:						
Accrued interest payable	2,674,120	-	-	-	-	2,674,120
Current portion of notes payable	262,500	1,061,011	-	-	-	1,323,511
Current portion of bonds payable	4,145,000	625,000	-	-	-	4,770,000
Total liabilities payable from restricted assets	<u>7,081,620</u>	<u>1,686,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,767,631</u>
Noncurrent liabilities:						
Compensated absences	91,459	85,998	-	76,518	-	253,975
Due to the City of Harrisburg	38,421	999,834	-	-	-	1,038,255
Notes payable	4,512,539	20,191,230	-	-	-	24,703,769
Bonds outstanding, plus premiums of \$7,327,576, zero, zero, and zero	121,077,576	29,035,000	-	-	-	150,112,576
Other postemployment benefit liability	118,266	92,783	-	35,685	-	246,734
Unearned revenue	392,829	-	-	-	-	392,829
Net pension liability	163,543	203,882	-	257,022	-	624,447
Total noncurrent liabilities	<u>126,394,633</u>	<u>50,608,727</u>	<u>-</u>	<u>369,225</u>	<u>-</u>	<u>177,372,585</u>
Total Liabilities	<u>136,583,763</u>	<u>57,204,588</u>	<u>-</u>	<u>1,837,473</u>	<u>(1,182,516)</u>	<u>194,443,308</u>
Deferred Inflows of Resources:						
Deferred inflows of resources for pensions	17,510	21,829	-	27,518	-	66,857
<b>Net Position:</b>						
Net investment in capital assets	(41,997,812)	50,559,021	-	340,322	-	8,901,531
Restricted						
Guarantee agreement	-	-	-	250,000	-	250,000
Water operations	3,395,656	-	-	-	-	3,395,656
Sewer operations	-	3,699,032	-	-	-	3,699,032
Insurer agreement	-	-	4,874	-	-	4,874
Unrestricted	18,798,188	13,826,731	-	739,604	-	33,364,523
Total Net Position	<u>(19,803,968)</u>	<u>68,084,784</u>	<u>4,874</u>	<u>1,329,926</u>	<u>-</u>	<u>49,615,616</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u>\$ 116,797,305</u>	<u>\$ 125,311,201</u>	<u>\$ 4,874</u>	<u>\$ 3,194,917</u>	<u>\$ (1,182,516)</u>	<u>\$ 244,125,781</u>

(Concluded)

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2016**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Operating Revenues:</b>						
User charges	\$ 21,056,959	\$ 17,127,865	\$ -	\$ -	\$ -	\$ 38,184,824
Administrative fees	-	-	-	5,036,714	(5,036,714)	-
Total operating revenues	<u>21,056,959</u>	<u>17,127,865</u>	<u>-</u>	<u>5,036,714</u>	<u>(5,036,714)</u>	<u>38,184,824</u>
<b>Operating Expenses:</b>						
Operating	4,942,306	8,685,020	175,284	-	-	13,802,610
Administrative	2,472,228	2,564,486	-	5,051,155	(5,036,714)	5,051,155
Depreciation	2,191,148	2,064,807	-	42,857	-	4,298,812
Total operating expenses	<u>9,605,682</u>	<u>13,314,313</u>	<u>175,284</u>	<u>5,094,012</u>	<u>(5,036,714)</u>	<u>23,152,577</u>
<b>Operating Income (Loss)</b>	<u>11,451,277</u>	<u>3,813,552</u>	<u>(175,284)</u>	<u>(57,298)</u>	<u>-</u>	<u>15,032,247</u>
<b>Non-Operating Revenues (Expenses):</b>						
Investment income	2,093,457	90,067	405	8,200	-	2,192,129
Intergovernmental revenue	-	16,177	-	-	-	16,177
Gain on sale of easements	4,671,738	-	-	-	-	4,671,738
Miscellaneous income (expense)	(245,996)	(10,610)	-	16,100	-	(240,506)
Interest expense	(7,662,476)	(50,910)	-	-	-	(7,713,386)
Total non-operating revenues (expenses)	<u>(1,143,277)</u>	<u>44,724</u>	<u>405</u>	<u>24,300</u>	<u>-</u>	<u>(1,073,848)</u>
<b>Change in Net Position Before Special Item</b>	10,308,000	3,858,276	(174,879)	(32,998)	-	13,958,399
Special item	-	-	92,933	-	-	92,933
<b>Change in Net Position</b>	10,308,000	3,858,276	(81,946)	(32,998)	-	14,051,332
<b>Net Position:</b>						
Beginning of year	(30,111,968)	64,226,508	86,820	1,362,924	-	35,564,284
End of year	<u>\$ (19,803,968)</u>	<u>\$ 68,084,784</u>	<u>\$ 4,874</u>	<u>\$ 1,329,926</u>	<u>\$ -</u>	<u>\$ 49,615,616</u>

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Cash Flows From Operating Activities:</b>						
Receipts from customers and users	\$ 20,794,495	\$ 18,175,928	\$ -	\$ (341,236)	\$ -	\$ 38,629,187
Receipts for interfund services	-	-	-	5,494,524	(5,494,524)	-
Payments to employees	(1,845,780)	(2,162,590)	-	(2,426,587)	-	(6,434,957)
Payments to suppliers	(2,875,045)	(3,113,071)	(373,021)	(2,118,479)	-	(8,479,616)
Payments for interfund services	(3,121,456)	(2,373,068)	-	-	5,494,524	-
Net cash provided by (used in) operating activities	12,952,214	10,527,199	(373,021)	608,222	-	23,714,614
<b>Cash Flows From Investing Activities:</b>						
Sales (purchases) of investments, net	11,189,268	(4,016,471)	-	-	-	7,172,797
Investment income received	2,313,726	90,067	405	8,200	-	2,412,398
Net cash provided by (used in) investing activities	13,502,994	(3,926,404)	405	8,200	-	9,585,195
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from debt issuance	60,819,370	2,468,173	-	-	-	63,287,543
Payments to bond escrow agent	(71,218,741)	-	-	-	-	(71,218,741)
Payment of debt issuance costs	(1,116,657)	-	-	-	-	(1,116,657)
Payment for termination of investment contract	(258,000)	-	-	-	-	(258,000)
Payment for amendment to debt service forward delivery agreement	(401,000)	-	-	-	-	(401,000)
Acquisition and construction of capital assets	(3,350,784)	(12,434,017)	-	(34,069)	-	(15,818,870)
Interest paid	(6,127,544)	(870,359)	-	-	-	(6,997,903)
Principal paid on long-term debt	(131,208)	(174,731)	-	-	-	(305,939)
Intergovernmental revenue	64,192	-	-	-	-	64,192
Proceeds from sale of easements	4,671,738	-	-	-	-	4,671,738
Payment to bond insurer	-	-	(67,487)	-	-	(67,487)
Net cash provided by (used in) capital and related financing activities	(17,048,634)	(11,010,934)	(67,487)	(34,069)	-	(28,161,124)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	9,406,574	(4,410,139)	(440,103)	582,353	-	5,138,685
<b>Cash and Cash Equivalents:</b>						
Beginning of year	10,856,082	18,258,329	444,977	1,395,737	-	30,955,125
End of year	\$ 20,262,656	\$ 13,848,190	\$ 4,874	\$ 1,978,090	\$ -	\$ 36,093,810

(Continued)

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(Continued)**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>						
Operating income (loss)	\$ 11,451,277	\$ 3,813,552	\$ (175,284)	\$ (57,298)	\$ -	\$ 15,032,247
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:						
Depreciation	2,191,148	2,064,807	-	42,857	-	4,298,812
Amortization of deferred outflows and inflows of resources	36,177	45,099	-	56,855	-	138,131
Miscellaneous nonoperating income (expense)	(245,996)	(10,610)	-	16,100	-	(240,506)
(Increase) decrease in accounts receivable	(161,111)	1,786,491	-	(2,807)	-	1,622,573
Increase in due from the City of Harrisburg	(101,353)	(738,428)	-	(354,529)	-	(1,194,310)
Decrease in prepaid expenses	23,211	154,877	-	64,799	-	242,887
Increase in inventory	-	(5,053)	-	-	-	(5,053)
Increase in deferred outflows of resources for pensions	(236,554)	(294,836)	-	(371,205)	-	(902,595)
(Increase) decrease in due from (to) other funds	(649,228)	191,418	-	457,810	-	-
Increase (decrease) in accounts payable and accrued liabilities	433,178	2,271,860	(197,737)	95,278	-	2,602,579
Increase in due to the City of Harrisburg	96,485	1,032,387	-	362,161	-	1,491,033
Decrease in compensated absences	(104,548)	(45,576)	-	(4,077)	-	(154,201)
Increase in other postemployment benefit liability	36,724	33,317	-	14,986	-	85,027
Increase in net pension liability	163,543	203,882	-	257,022	-	624,447
Increase in deferred inflows of resources for pensions	19,261	24,012	-	30,270	-	73,543
Net cash provided by (used in) operating activities	<u>\$ 12,952,214</u>	<u>\$ 10,527,199</u>	<u>\$ (373,021)</u>	<u>\$ 608,222</u>	<u>\$ -</u>	<u>\$ 23,714,614</u>

(Concluded)

**CAPITAL REGION WATER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Federal CFDA Number</u>	<u>Grant/ Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<b>Environmental Protection Agency:</b>				
Passed through Pennsylvania Infrastructure Investment Authority:				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	71400	\$ -	\$ 2,128,007
<b>General Services Administration:</b>				
Passed through the Commonwealth of Pennsylvania Department of General Services:				
Donation of Federal Surplus Personal Property	39.003	N/A	-	2,935
			<u>-</u>	<u>2,935</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 2,130,942</u>

See accompanying notes to schedule of expenditures of federal awards.

# CAPITAL REGION WATER

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

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### **1. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal awards programs of Capital Region Water (CRW) using the accrual basis of accounting. Expenditures reported on the Schedule of Expenditures of Federal Awards are recognized following, as applicable, either the cost principles in the U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (A-87), or the cost principles contained in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

CRW has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### **2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, CRW's basic financial statements.

### **3. DETERMINATION OF FEDERAL EXPENDITURES**

The amount of federal expenditures for the Environmental Protection Agency loans represents the expenditures incurred under the loans during the year ended December 31, 2016. The Environmental Protection Agency requires that the current year expenditures incurred under the loans be reported on the schedule rather than the beginning balance of the loans.