

## **Capital Region Water**

Financial Statements and Required  
Supplementary Information and  
Supplementary Information

Year Ended December 31, 2015 with  
Independent Auditor's Reports

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# CAPITAL REGION WATER

YEAR ENDED DECEMBER 31, 2015

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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, 2015, 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, 2015, 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 42 through 44 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* (CFR) 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 12, 2016, 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 12, 2016

# CAPITAL REGION WATER

## BALANCE SHEET

DECEMBER 31, 2015

### Assets and Deferred Outflows of Resources

#### Assets:

##### Current assets:

Cash and cash equivalents	\$ 27,059,343
Accounts receivable, net of allowance for uncollectible accounts of \$8,622,466	10,013,756
Due from the City of Harrisburg	2,163,649
Other receivables	64,192
Prepaid expenses	534,071
Inventory	484,111

Total current assets 40,319,122

##### Restricted assets:

Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,895,782
Investments - restricted under trust indentures	44,720,173

Total restricted assets 48,615,955

##### Noncurrent assets:

Capital assets, not being depreciated	50,500,306
Capital assets, net of accumulated depreciation of \$113,993,868	90,269,212
Prepaid debt insurance costs	246,235

Total noncurrent assets 141,015,753

Total Assets 229,950,830

#### Deferred Outflows of Resources:

Deferred loss on refunding	<u>9,204,547</u>
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**Total Assets and Deferred Outflows  
of Resources** \$239,155,377

## **Liabilities and Net Position**

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### Liabilities:

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#### Current liabilities:

Accounts payable and accrued liabilities	\$ 7,028,617
Due to the City of Harrisburg	1,861,549
Current portion of compensated absences	251,482
Total current liabilities	<u>9,141,648</u>

#### Liabilities payable from restricted assets:

Accrued interest payable	2,856,644
Current portion of notes payable	163,561
Current portion of bonds payable	4,640,000
Total liabilities payable from restricted assets	<u>7,660,205</u>

#### Noncurrent liabilities:

Compensated absences	327,080
Due to the City of Harrisburg	1,038,255
Notes payable	23,378,938
Bonds outstanding, net of discount of \$525,477	161,035,523
Other post-employment benefit liability	161,707
Unearned revenue	847,737
Total noncurrent liabilities	<u>186,789,240</u>
Total Liabilities	<u>203,591,093</u>

### Net Position:

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Net investment in capital assets	1,900,139
Restricted:	
Guarantee agreement	250,000
Water operations	12,544,937
Sewer operations	20,018,574
Insurer agreement	86,820
Unrestricted	763,814
Total Net Position	<u>35,564,284</u>

### **Total Liabilities and Net Position**

\$239,155,377

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, 2015**

<b>Operating Revenues:</b>	
User charges	\$ 36,335,570
Administrative fees	108,945
Total operating revenues	36,444,515
<b>Operating Expenses:</b>	
Operating	11,362,604
Administrative	4,763,767
Depreciation	4,170,959
Total operating expenses	20,297,330
<b>Operating Income</b>	<b>16,147,185</b>
<b>Non-Operating Revenues (Expenses):</b>	
Investment income	965,390
Intergovernmental revenue	328,424
Miscellaneous expense	(62,280)
Interest expense	(8,104,872)
Total non-operating revenues (expenses)	(6,873,338)
<b>Change in Net Position Before Special Item</b>	<b>9,273,847</b>
Special item	(337,200)
<b>Change in Net Position</b>	<b>8,936,647</b>
<b>Net Position:</b>	
Beginning of year	26,627,637
End of year	<b>\$ 35,564,284</b>

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

# CAPITAL REGION WATER

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

### Cash Flows From Operating Activities:

Receipts from customers and users	\$ 33,416,885
Payments to employees	(5,580,462)
Payments to suppliers	(10,022,861)
Net cash provided by operating activities	<u>17,813,562</u>

### Cash Flows From Investing Activities:

Sales of investments, net	10,336,746
Investment income received	893,848
Net cash provided by investing activities	<u>11,230,594</u>

### Cash Flows From Capital and Related Financing Activities:

Proceeds from debt issuance	15,064,827
Acquisition and construction of capital assets	(26,621,377)
Interest paid	(7,541,112)
Principal paid on long-term debt	(5,179,949)
Intergovernmental revenue	280,409
Payment to bond insurer	(337,200)
Net cash used in capital and related financing activities	<u>(24,334,402)</u>
<b>Increase in Cash and Cash Equivalents</b>	<b>4,709,754</b>

### Cash and Cash Equivalents:

Beginning of year	<u>26,245,371</u>
End of year	<u>\$ 30,955,125</u>

### Reconciliation of Operating Income to Net

#### Cash Provided by Operating Activities:

Operating income	\$ 16,147,185
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,170,959
Loss on disposal of assets	84,554
Miscellaneous nonoperating expense	(19,096)
Increase in accounts receivable	(3,121,065)
Decrease in due from the City of Harrisburg	78,066
Increase in prepaid expenses	(81,565)
Decrease in inventory	41,491
Increase in accounts payable	223,615
Increase in due to the City of Harrisburg	286,586
Decrease in compensated absences	(158,875)
Increase in other post-employment benefit liability	161,707
Net cash provided by operating activities	<u>\$ 17,813,562</u>

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

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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,

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, and liabilities 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) 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. The fair value of CRW's investments is based upon values provided by external investment managers and quoted market prices.

### 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 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 estimated fair value, if available, or at engineers' estimated fair value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair value. Costs

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015, interest expense of \$652,671, 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 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

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Debt Financing Costs

Prepaid debt insurance costs and 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, the unamortized prepaid debt insurance costs are reported as an asset, deferred losses on refundings are reported as a deferred outflow 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 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 as of and for the year ended December 31, 2015 in

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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. 68, *“Accounting and Financial Reporting for Pensions,”* and GASB Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* were effective for CRW for the year ended December 31, 2015. These Statements establish new financial reporting requirements for most governments that provide their employees with pension benefits. At December 31, 2014 and 2015, CRW’s net pension liability (asset) and related deferred outflows and inflows of resources are not reported on the balance sheet, as the amounts are considered immaterial. At December 31, 2015, CRW’s net pension asset was approximately \$1,100.

The net pension liability (asset) and its related components are described more fully in Note 12.

### Pending GASB Pronouncements

In February 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for CRW’s December 31, 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for CRW’s December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for CRW’s December 31, 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”* This Statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This Statement replaces Statement

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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No. 43. The provisions of GASB Statement No. 74 are effective for CRW's December 31, 2017 financial statements.

In June 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 Statement No. 45. The provisions of GASB Statement No. 75 are effective for CRW's December 31, 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, "*Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This Statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55. The provisions of Statement No. 76 are effective for CRW's December 31, 2016 financial statements.

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.

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. During the year ended December 31, 2015,

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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approximately \$337,000 was paid to the bond insurer. CRW made a final payment to the bond insurer, in the amount of approximately \$68,000, in July 2016.

### 3. DEPOSITS AND INVESTMENTS

#### Deposits

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; 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.

The deposit and investment practice of CRW adheres to state statutes, prudent business practices, and the applicable trust indentures, which are more restrictive than existing state statutes. Deposits are maintained in demand deposits and certificates of deposit.

The deposits of CRW at December 31, 2015 were as follows:

Cash and cash equivalents:	
Unrestricted	\$ 27,059,343
Restricted under trust indentures and guarantee agreement	<u>3,895,782</u>
	<u>\$ 30,955,125</u>

*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 does not have a deposit policy for custodial credit risk. As of December 31, 2015, CRW’s book balance was \$30,955,125 and the bank balance was \$31,403,475. Of the bank balance, \$1,082,825 was covered by federal depository insurance, \$29,952,550 was collateralized under 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, and the remaining \$368,100 was uncollateralized.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Investments

The investments of CRW at December 31, 2015 were as follows:

Restricted:	
Money market funds	\$ 27,276,131
U.S. Government agency obligations	3,588,042
Investment contracts	<u>13,856,000</u>
Total	<u><u>\$ 44,720,173</u></u>

*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 does not have a formal investment policy for custodial credit risk. All of CRW's investments are held by the counterparty's trust department or agent not in CRW's name.

*Concentration of Credit Risk* - CRW places no limit on the amount CRW may invest in any one issuer. More than five percent of CRW's investments are held as follows:

	Fair (Contract) <u>Value</u>	<u>% of Total</u>
Bank of America Investment Contracts	\$ 13,856,000	30.98%

*Credit Risk* – CRW does not have a formal policy that would limit its investment choices with regard to credit risk. CRW's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2015:

	Fair (Contract) <u>Value</u>	<u>Rating</u>
Money market funds	\$ 27,276,131	AAA
U.S. Government agency obligations	3,588,042	AAA
Investment contract	4,731,000	AA+
Investment contract	6,300,000	A-
Investment contract	2,825,000	Unrated

*Interest Rate Risk* – CRW does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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	1-5	6-10	Greater than 10
Money market funds	\$ 27,276,131	\$ 27,276,131	\$ -	\$ -	\$ -
U.S. Government agency obligations	3,588,042	3,588,042	-	-	-
Investment contracts	13,856,000	-	-	-	13,856,000
<b>Total</b>	<b>\$ 44,720,173</b>	<b>\$ 30,864,173</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,856,000</b>

The investment contracts with values of \$4,731,000 and \$2,825,000 were terminated with the issuance of the bonds issued during April 2016, as discussed in Note 7. Proceeds from the sale of the underlying investments were in excess of the contract value plus termination fee.

#### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 is as follows:

	Balance at January 1, 2015	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2015
Capital assets, not being depreciated:				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	23,320,643	26,966,961	(148,719)	50,138,885
Total capital assets, not being depreciated	23,682,064	26,966,961	(148,719)	50,500,306
Capital assets, being depreciated:				
Land improvements	1,497,605	-	-	1,497,605
Buildings and improvements	67,707,074	396,215	-	68,103,289
Furniture and fixtures	645,683	242,763	-	888,446
Machinery and equipment	133,179,922	782,614	(188,796)	133,773,740
Total capital assets, being depreciated	203,030,284	1,421,592	(188,796)	204,263,080
Less: accumulated depreciation	(109,927,151)	(4,170,959)	104,242	(113,993,868)
Total capital assets being depreciated, net	93,103,133	(2,749,367)	(84,554)	90,269,212
<b>Total capital assets, net</b>	<b>\$ 116,785,197</b>	<b>\$ 24,217,594</b>	<b>\$ (233,273)</b>	<b>\$ 140,769,518</b>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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 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. During the year ended December 31, 2015, CRW and the City were billed based on budgeted expenditures and certain receivables and payables have been recorded based on these budgeted amounts. A reconciliation based on actual cost for the years ended December 31, 2014 and 2013 for certain shared service costs was performed in 2015 and the associated receivables and payables related to these years have been recorded. A reconciliation of certain other shared services costs is still being negotiated and any changes will be made prospectively.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Amounts due from/to the City consist of the following at December 31, 2015:

	Water Segment	Sewer Segment	Admin Segment
Due from City:			
Cash	\$ 174,960	\$ -	\$ -
Miscellaneous receivables	58,735	-	12,072
Due from City Capital Projects Fund	90,227	-	-
Accounts payable	(162)	-	-
Due to City General Fund	(47,817)	-	-
2004 loan and duplicate transfers for payment of cash disbursements	-	776,964	-
ACH receipts	94,128	30,838	-
Credit card receipts	7,084	3,851	-
Shared services	-	-	491,294
Disaster Grants	105,693	365,782	-
	\$ 482,848	\$ 1,177,435	\$ 503,366
Due to the City:			
Due to City Capital Projects Fund	\$ (16,413)	\$ -	\$ -
Debit/credit transfer balances	(1,004,351)	(8,415)	-
Other post-employment benefit liabilities	(52,640)	(1,523,864)	-
Disputed accounts	(226,672)	(108,420)	-
Cash	-	10,105	-
Investments - workers' compensation	-	726,340	-
Workers' compensation reserve	-	(121,143)	-
Due to City General Fund	-	(165,878)	-
Utility refunds	-	(1,667)	-
Shared services	-	(246,366)	-
	\$ (1,300,076)	\$ (1,439,308)	\$ -

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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. The unearned revenue resulting from this transaction of \$831,560 at December 31, 2015 is being amortized over the life of the agreement under a method that approximates the interest method. A portion of the debt service forward delivery agreement was terminated with the issuance of the bonds issued during April 2016, as discussed in Note 7. As part of this financing, CRW paid a \$401,000 termination fee.

**CAPITAL REGION WATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**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, 2015 follows:

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2015 Water System Improvement General Obligation Note	\$ 5,600,000	2017 - 2037	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 - 2036	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 - 2030	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
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
2004 Water Revenue Bonds	37,455,000	2005 - 2023	1.5% - 5.0%	Currently refund CRW's outstanding Water Revenue Refunding Bonds, Series A-1, A-2, and A-3 of 1994 and payment of 2004 swap termination payment

**CAPITAL REGION WATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

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	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2002 Water Revenue Bonds:				
Series A	15,340,000	2023, 2024, 2029	5.00%	Advance refund 1999 Series A Water Revenue Bonds, purchase 1999 Series B Water Revenue Refunding Bonds, current refund debt service on the 1994 Bonds due and payable in 2002
Series B	23,035,000	2011 - 2017	variable	Purchase 1999 Series C Water Revenue Refunding Bonds
Series C	7,700,000	2013 - 2019	variable	Fund the 2002 Debt Service Reserve Fund Account
1998 Sewer Revenue Note:				
Series B	1,864,000	1999 - 2017	1.536% - 3.071%	Finance projects related to the sewage collection system

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 2002 Water Revenue Bonds, Series B

These Bonds bear interest at one month LIBOR plus 350 basis points, 3.9295 percent at December 31, 2015.

### 2002 Water Revenue Bonds, Series C

These Bonds bear interest at one month LIBOR plus 350 basis points, 3.9295 percent at December 31, 2015.

### 2014 Sewer Revenue Bonds, Series B

These Bonds bear interest at a LIBOR index rate plus a spread, .01 percent at December 31, 2015, plus LOC facility and remarketing fee.

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2015

The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2015:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds outstanding:				
Water Revenue Bonds:				
Series of 2008	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300
Series of 2004	1,964,000	2,177,400	7,092,000	7,476,250
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (A)	4,762,263	4,807,734	-	-
Series C of 2002 (A)	256,046	256,046	256,046	256,046
Sewer Revenue Bonds:				
Series B of 2014 (A)	580,422	1,200,940	1,218,753	1,240,964
Total principal and interest, bonds	<u>\$ 11,885,031</u>	<u>\$ 12,764,420</u>	<u>\$ 12,889,099</u>	<u>\$ 13,295,560</u>
Less:				
Interest				
Unamortized discount				
Total bonds outstanding, net of discount				
Notes payable:				
Water System Improvement General				
Obligation Note, Series of 2015	\$ 45,837	\$ 149,400	\$ 252,962	\$ 252,962
Sewer Revenue Notes:				
Series C of 2014	174,818	964,771	964,771	988,204
Series of 2009	105,469	105,469	105,469	105,469
Series B of 1998	94,584	73,665	-	-
Total principal and interest, notes	<u>\$ 420,708</u>	<u>\$ 1,293,305</u>	<u>\$ 1,323,202</u>	<u>\$ 1,346,635</u>
Less:				
Interest				
Total notes payable				

(A) - Uses variable rate in effect at December 31, 2015 as disclosed on page 19.

<u>2020</u>	<u>2021 to 2025</u>	<u>2026 to 2030</u>	<u>2031 to 2035</u>	<u>2036 to 2040</u>	<u>2041</u>	<u>Total</u>
\$ 3,555,300	\$ 26,471,268	\$ 55,656,656	\$ 17,018,926	\$ -	\$ -	\$116,923,350
7,483,000	19,674,500	-	-	-	-	45,867,150
767,000	16,646,250	1,812,000	-	-	-	22,293,250
-	-	-	-	-	-	9,569,997
256,046	1,280,230	7,433,498	-	-	-	9,993,958
<u>1,258,892</u>	<u>6,648,097</u>	<u>7,342,412</u>	<u>8,232,990</u>	<u>9,366,009</u>	<u>2,036,378</u>	<u>39,125,857</u>
<u>\$ 13,320,238</u>	<u>\$ 70,720,345</u>	<u>\$ 72,244,566</u>	<u>\$ 25,251,916</u>	<u>\$ 9,366,009</u>	<u>\$ 2,036,378</u>	<u>243,773,562</u>
						77,572,562
						525,477
						<u>\$165,675,523</u>
\$ 252,962	\$ 1,264,810	\$ 1,264,810	\$ 1,264,810	\$ 379,443	\$ -	\$ 5,127,996
988,204	4,941,020	4,941,020	4,941,020	988,212	-	19,892,040
105,469	527,345	527,345	-	-	-	1,582,035
-	-	-	-	-	-	168,249
<u>\$ 1,346,635</u>	<u>\$ 6,733,175</u>	<u>\$ 6,733,175</u>	<u>\$ 6,205,830</u>	<u>\$ 1,367,655</u>	<u>\$ -</u>	<u>26,770,320</u>
						3,227,821
						<u>\$ 23,542,499</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Long-term liability activity for the year ended December 31, 2015 was as follows:

	Beginning Balance at January 1, 2015	Additions	Amortization	Reductions	Ending Balance at December 31, 2015	Amounts Due Within One Year
Notes payable	\$ 8,652,621	\$ 15,064,827	\$ -	\$ (174,949)	\$ 23,542,499	\$ 163,561
Bonds payable	171,206,000	-	-	(5,005,000)	166,201,000	4,640,000
Compensated absences	737,437	632,780	-	(791,655)	578,562	251,482
Total long-term liabilities	180,596,058	15,697,607	-	(5,971,604)	190,322,061	5,055,043
Less:						
Unamortized discount	(672,526)	-	(1,251)	148,300	(525,477)	-
	<u>\$ 179,923,532</u>	<u>\$ 15,697,607</u>	<u>\$ (1,251)</u>	<u>\$ (5,823,304)</u>	<u>\$ 189,796,584</u>	<u>\$ 5,055,043</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 order to provide additional funds to complete the advanced wastewater treatment facility project, CRW issued a Sewer Revenue Note, Series of 2014C (Series of 2014C Note) in an amount not to exceed \$21,500,000. The Series of 2014C Note is interest-only for three years and amortizes over a period of 20 years. Interest is fixed at 1% for years one through five and 1.275% thereafter.

On July 11, 2012, CRW's Variable Rate Water Revenue Refunding Bonds, Series B and C of 2002 were purchased by Dexia Credit Local (Dexia), the liquidity facility provider, prior to

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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the expiration of the standby bond purchase agreement, which was not extended. CRW's Variable Rate Water Revenue Refunding Bonds, Series B and C of 2002 were subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 and bore interest at Dexia's prime rate, plus 1%.

In April 2014, CRW completed, with Amalgamated Bank, a direct purchase of the outstanding Bonds (\$15,393,000 in the case of the Variable Rate Water Revenue Refunding Bonds, Series B of 2002 and \$6,516,000 in the case of the Variable Rate Water Revenue Refunding Bonds, Series C of 2002) for a variable rate of interest and for approximately two years. Such direct purchase required CRW to amend its Ninth Supplemental Trust Indenture dated as of July 1, 2002 (Ninth Supplement) between CRW and The Bank of New York Mellon Trust Company, N.A., as successor trustee to J.P. Morgan Trust Company, National Association (Trustee), pursuant to which the 2002 Bonds were issued to allow for a "bank mode" interest rate. The Bonds were remarketed to Amalgamated Bank on April 10, 2014 for a term ending April 10, 2016 and at a variable interest rate which is reset monthly and is based on a LIBOR index rate plus a spread (which spread increases in the second year). During such two-year term, the mandatory sinking fund redemption schedule set forth in the Ninth Supplement for the Variable Rate Water Revenue Refunding Bonds, Series B of 2002 will be maintained, although the amount of Variable Rate Water Revenue Refunding Bonds, Series B of 2002 scheduled to be redeemed on July 15, 2014 was reduced to \$2,798,000 as a result of redemptions while the Bonds were held by the liquidity provider. If the Bonds were still held by Amalgamated Bank on April 10, 2016, then the Bonds were to be subject to an accelerated mandatory sinking fund redemption schedule over the following four years.

In April 2016, CRW issued Water Revenue Refunding Bonds, Series A of 2016, and Federally Taxable Water Revenue Refunding Bonds, Series B of 2016 (collectively, the 2016 Bonds), in the amount of \$49,735,000 and \$2,440,000, respectively, to 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.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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 continued wind down 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, 2015 is as follows:

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

<b>CONDENSED BALANCE SHEET</b>	Water Segment	Sewer Segment	Resource Recovery Segment
<b>Assets:</b>			
Current assets:			
Other current assets	\$ 11,972,680	\$ 24,460,914	\$ 444,977
Due from the City of Harrisburg	482,848	1,177,435	-
Due from other funds	472,005	252,701	-
Total current assets	12,927,533	25,891,050	444,977
Restricted assets	33,389,311	14,976,644	-
Capital assets	60,546,865	79,873,543	-
Other noncurrent assets	246,235	-	-
Total Assets	107,109,944	120,741,237	444,977
Deferred Outflow of Resources	9,204,547	-	-
Total Assets and Deferred Outflow of Resources	<u>\$ 116,314,491</u>	<u>\$ 120,741,237</u>	<u>\$ 444,977</u>
<b>Liabilities:</b>			
Current liabilities:			
Other current liabilities	\$ 613,027	\$ 6,273,302	\$ 197,737
Due to the City of Harrisburg	1,261,655	439,474	160,420
Total current liabilities	1,874,682	6,712,776	358,157
Liabilities payable from restricted assets	7,496,644	163,561	-
Due to the City of Harrisburg	38,421	999,834	-
Noncurrent liabilities	137,016,712	48,638,558	-
Total Liabilities	146,426,459	56,514,729	358,157
<b>Net Position:</b>			
Net investment in capital assets	(42,656,905)	44,207,934	-
Restricted	2,587,996	2,023,454	86,820
Unrestricted	9,956,941	17,995,120	-
Total Net Position	(30,111,968)	64,226,508	86,820
Total Liabilities and Net Position	<u>\$ 116,314,491</u>	<u>\$ 120,741,237</u>	<u>\$ 444,977</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION</b>			
Operating revenues	\$ 19,729,896	\$ 16,605,674	\$ -
Operating expenses:			
Operating	4,541,541	6,555,225	265,838
Administration	2,404,134	2,464,472	-
Depreciation	2,165,587	1,983,825	-
Total operating expenses	9,111,262	11,003,522	265,838
Operating Income (Loss)	10,618,634	5,602,152	(265,838)
Non-operating revenues (expenses):			
Investment income	880,106	76,961	3,403
Intergovernmental revenue	282,101	46,323	-
Miscellaneous expense	(76,566)	(1,083)	-
Interest expense	(7,928,923)	(175,949)	-
Total non-operating revenues (expenses)	(6,843,282)	(53,748)	3,403
Change in Net Position Before Transfers and Special Item	3,775,352	5,548,404	(262,435)
Transfers	(362,137)	-	-
Special item	-	-	(337,200)
Change in Net Position	3,413,215	5,548,404	(599,635)
Net position - January 1, 2015	(33,525,183)	58,678,104	686,455
Net position - December 31, 2015	<u>\$ (30,111,968)</u>	<u>\$ 64,226,508</u>	<u>\$ 86,820</u>

**CAPITAL REGION WATER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2015

<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	\$ 11,563,835	\$ 6,543,764	\$ (68,101)
Net cash used in noncapital financing activities	(362,137)	-	-
Net cash provided by (used in) investing activities	(541,119)	11,763,390	3,403
Net cash used in capital and related financing activities	<u>(8,216,639)</u>	<u>(15,537,800)</u>	<u>(337,200)</u>
Increase (decrease) in cash and cash equivalents	2,443,940	2,769,354	(401,898)
Cash and cash equivalents, January 1, 2015	<u>8,412,142</u>	<u>15,488,975</u>	<u>846,875</u>
Cash and cash equivalents, December 31, 2015	<u>\$ 10,856,082</u>	<u>\$ 18,258,329</u>	<u>\$ 444,977</u>

At December 31, 2015, 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, 2015:

Harrisburg University, Series B of 2007	<u>\$ 58,975,000</u>
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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Harrisburg University*

Pursuant to a Trust Indenture dated as of January 1, 2007 (Indenture), CRW issued its University Revenue Bonds, Series of 2007 (The Harrisburg University of Science and Technology Project) in the aggregate principal amount of \$87,915,000, comprised of its University Revenue Bonds, Series A of 2007 in the aggregate principal amount of \$27,690,000 (Series A Bonds) and its University Revenue Bonds, Series B of 2007 in the aggregate principal amount of \$60,225,000 (Series B Bonds, and together with the Harrisburg University Series A Bonds, the Bonds). The Series A Bonds have been paid and are no longer outstanding under the Indenture.

In order to secure the Bonds, CRW assigned to the Trustee under the Indenture all of its right, title, and interest in and to all funds and accounts established under the Indenture (other than the rebate fund created thereunder) and the pledged revenues, as defined in the Indenture. Further, the performance of the obligations of The Harrisburg University of Science and Technology (University) under a certain Loan Agreement dated as of January 1, 2007 (Loan Agreement) by and between CRW and the University is secured by a certain Open-End Mortgage and Security Agreement dated as of January 1, 2007 (Mortgage). Capitalized terms not defined herein shall have the meanings ascribed to them in the Indenture and Loan Agreement, as applicable.

The Series B Bonds are also secured by the provisions of a certain credit support agreement (Credit Support Agreement) and a guaranty agreement (Guaranty), whereby the County will undertake for a ten-year period (commencing January 1, 2010 and subject to certain earlier rights of termination) to guarantee payment of a portion of the debt service on the Series B Bonds in the maximum amount of \$1,500,000 each year over such ten-year period, for a total maximum amount of \$15,000,000.

The Series B Bonds were also secured by a certain Standby Letter of Credit issued by Metro Bank, successor to Commerce Bank/Harrisburg, National Association (Letter of Credit Bank), as of January 1, 2007 (Standby Letter of Credit) under and pursuant to a Reimbursement Agreement dated as of January 1, 2007, by and among CRW, the Harrisburg University and the Letter of Credit Bank (Reimbursement Agreement). The Standby Letter of Credit was initially issued in the amount of \$3,300,000. The Standby Letter of Credit expired as of September 1, 2011. The Standby Letter of Credit has not been replaced.

During the year ending December 31, 2011 and through March 2016, the University has reported that it has been unable to make the required loan payments and, in some cases, has utilized the County guaranty to pay the required loan payments. The draw on the Guaranty does not constitute an event of default under the Indenture, the Loan Agreement, the Guaranty, the Credit Support Agreement, or any of the other finance documents relative to the Bonds. Under the Credit Support Agreement, in the event that any funds paid by the

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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County to the Trustee are not returned to the County by close of business on the third Business Day following the debt service payment date for which such sums were advanced, the University is required to pay to the County interest on such funds, payable on demand and in any event on the date on which such funds are returned to the County, at a default rate of six (6%) percent, subject, however, to such different or additional terms as may be mutually acceptable to the University and the County.

During the year ended December 31, 2012 and through March 2016, in its multiple Notices of Default, the Trustee asserted that the failure to make the required loan payments constituted an event of default under the Loan Agreement and under the Indenture.

Although CRW is a party to the trust indenture with the University and the Trustee, such agreements are structured such that there is no recourse against CRW in the case of default.

### 10. COMMITMENTS AND CONTINGENCIES

#### Sewer

Under the trust indenture, CRW is required to maintain a minimum balance in the Sewer 2014 PennVest loan account equal to \$55,000 through January 31, 2017. At December 31, 2015, the amount in the 2014 PennVest loan account was \$27,558. Due to timing issues with respect to the reimbursement and transfer of funds related to this account, the minimum balance was funded as of June 6, 2016.

#### Other

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, 2015.

CRW has guaranteed a line-of-credit on behalf of the National Civil War Museum limited to \$250,000. The maximum amount available under the line-of-credit is \$500,000. 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 line of credit, 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 line of credit is due upon demand and had an outstanding balance of \$41,058 at June 30, 2015.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015, excluding amounts in accounts payable, was approximately \$11.6 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:

2016	\$	196,864
2017		199,171
2018		201,478
2019		203,785
2020		136,882

### 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.

### 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 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

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165.

### 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 10 years of service. In December 2014, CRW approved a revision to the plan, reducing the vesting period from 10 years of credited service to five years of credited service. This change became effective January 1, 2015.

*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 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 post-retirement adjustments based on investment performance.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Plan Membership

Membership of the Plan consisted of the following at December 31, 2015:

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, 2014, CRW made a contribution to the Plan in the amount of \$143,879. The minimum municipal obligation (MMO) for the year ended December 31, 2014 was \$143,479. During the year ended December 31, 2015, CRW made a contribution to the Plan in the amount of \$206,579. The MMO for the year ended December 31, 2015 was \$204,394. Because the 2015 contribution was immaterial, it is not reported as a deferred outflow of resources at December 31, 2015.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

The changes in the net pension liability (asset) of CRW for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 5,431,595	\$ 5,377,923	\$ 53,672
Changes for the year:			
Service cost	334,095	-	334,095
Interest	401,252	-	401,252
Differences between expected and actual experience	1,637	-	1,637
Contributions - employer	-	143,879	(143,879)
Contributions - employees	-	251,842	(251,842)
PMRS investment income	-	478,161	(478,161)
Market value investment income	-	(61,939)	61,939
Transfers	3,135,289	3,135,289	-
Benefit payments	(16,536)	(16,536)	-
Administrative expense	-	(20,178)	20,178
Net changes	<u>3,855,737</u>	<u>3,910,518</u>	<u>(54,781)</u>
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	<u>\$ 9,287,332</u>	<u>\$ 9,288,441</u>	<u>\$ (1,109)</u>
Plan fiduciary net position as a percentage of the total pension liability			100.0%

Because the net pension liability (asset) of CRW at December 31, 2014 and 2015 is immaterial, it has not been reported on the Balance Sheet.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2014, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	3.0% - 8.3%*
* includes inflation rate of 3%	
Cost of living adjustments	3.0%

Actuarial assumptions based on PMRS Experience Study for the period  
January 1, 2005 to December 31, 2008

Pre-retirement mortality:

Males: RP 2000 with 1 year set back  
Females: RP 2000 with 5 year set back

Post-retirement mortality:

Males and females: RP-2000 Sex-Distinct Mortality Table

*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:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board’s opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled “System Nominal and Real Rates of Return by Asset Class.”
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence level for the PMRS Board has been determined to be 70%. The chart labeled “Confidence Levels

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

for System Nominal and Real Rates of Return” identifies simulated portfolio returns at various confidence levels.

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2015:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	11.7%	8.7%
Domestic equity (small capitalized firms)	15.0%	11.4%	8.4%
International equity (developed markets)	15.0%	7.6%	4.6%
International equity (emerging markets)	10.0%	11.1%	8.1%
Real estate	20.0%	9.7%	6.7%
Fixed income	15.0%	2.0%	-1.0%
Total portfolio	100.0%	9.2%	6.2%

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2015:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	4.7%	1.7%
90.0%	5.7%	2.7%
85.0%	6.4%	3.4%
80.0%	6.9%	3.9%
75.0%	7.4%	4.4%
70.0%	7.8%	4.8%
50.0%	9.2%	6.2%

Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

*Discount Rate* – While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

1. Retiree plan liability as a percentage of total plan liability,
2. Active plan participant liability as a percentage of total plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System long-term expected rate of return, and
5. PMRS administrative expenses.

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times the System long-term expected rate of return, less administrative expenses as a percentage of assets.

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility,

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2014 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with PMRS Board policies.

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 (asset) 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>\$ 1,411,242</u>	<u>\$ (1,109)</u>	<u>\$ (1,226,820)</u>

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015, CRW recognized pension expense of \$206,579. At December 31, 2015, CRW would have reported deferred outflows of resources and deferred inflows of resources related to its pension from the following sources, but they were not reported as such, because they are immaterial:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,488	\$ -
CRW contributions subsequent to the measurement date	206,579	-
Net difference between projected and actual earnings on pension plan investments	49,551	-
Total	<u>\$ 257,618</u>	<u>\$ -</u>

### **13. OTHER POST-EMPLOYMENT BENEFIT PLAN**

#### Plan Description

In addition to the pension benefits described in Note 12, CRW provides certain post-employment healthcare benefits to its employees who transferred from the City to CRW on November 4, 2013 through one single-employer, defined benefit other post-retirement 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.

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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.

Thru 12/31/2016	\$ 250
2017	260
2018	270
2019	280
2020	290
2021	300
2022	310
2023	320
2024	330
2025	340
2026 and later	350

### 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, 2015, CRW contributed \$4,803 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

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# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2013
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.50%
Medical inflation:	
2016	5.5%
2017	5.3%
2089 and thereafter	4.2%
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%

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### 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, 2015 were as follows:

Annual required contribution	\$	75,965
Interest on net OPEB obligation		4,142
Adjustment to ARC		<u>(5,651)</u>
Annual OPEB cost		74,456
Contribution made		<u>(4,803)</u>
Change in net OPEB obligation		69,653
Net OPEB Obligation, beginning		<u>92,054</u>
Net OPEB Obligation, ending	\$	<u><u>161,707</u></u>

### Three-Year Trend Information

Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
12/31/2015	\$ 74,456	6.32%	\$ 161,707
12/31/2014	75,654	3.41%	92,054
12/31/2013	18,991	0.00%	18,991

Year Ending	Annual OPEB Required Contribution (ARC)	Actual OPEB Contribution	Percentage of ARC Contributed
12/31/2015	\$ 75,965	\$ 4,803	6.32%
12/31/2014	75,965	2,591	3.41%
12/31/2013	18,991	-	0.00%

# CAPITAL REGION WATER

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll (b-a/c)
1/1/2013	\$ -	\$ 741,374	\$ 741,374	0.00%	\$ 2,249,418	32.96%

Note: Valuation as of 1/1/2013 represents initial valuation for the Plan as required under governmental accounting standards.

### 14. SUBSEQUENT EVENTS

CRW entered into various construction and professional services contracts in 2016 related to the construction of the various facilities. The commitment under these contracts is approximately \$3.5 million.

In March 2016, CRW entered into a mutual release agreement with the suburban municipalities to release the suburban municipalities from claims related to underpayment of wastewater fees and disputed rates incurred in prior years.

In April 2016, CRW issued Water Revenue Refunding Bonds, Series A of 2016, and Federally Taxable Water Revenue Refunding Bonds, Series B of 2016 (collectively, the 2016 Bonds), in the amount of \$49,735,000 and \$2,440,000, respectively, to 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.

**Required Supplementary  
Information**

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

	2015*
<b>Total Pension Liability:</b>	
Service cost	\$ 334,095
Interest	401,252
Differences between expected and actual experience	1,637
Transfers	3,135,289
Benefit payments, including refunds	(16,536)
<b>Net Changes in Total Pension Liability</b>	3,855,737
<b>Total Pension Liability - Beginning</b>	5,431,595
<b>Total Pension Liability - Ending (a)</b>	\$ 9,287,332
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 143,879
Contributions - employees	251,842
Net investment income	416,222
Transfers	3,135,289
Benefit payments, including refunds	(16,536)
Administrative expense	(20,178)
<b>Net Change in Plan Fiduciary Net Position</b>	3,910,518
<b>Plan Fiduciary Net Position - Beginning</b>	5,377,923
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 9,288,441
<b>Net Pension Liability (Asset) - Ending (a-b)</b>	\$ (1,109)
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	100.0%
<b>Covered Employee Payroll</b>	\$ 4,617,165
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	-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**

	2015*
Actuarially determined contribution under Act 205	\$ 143,479
Contribution in relation to the actuarially determined contribution	143,879
Contribution deficiency (excess)	\$ (400)
Covered employee payroll	\$ 4,617,165
Contributions as a percentage of covered employee payroll	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, 2014 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed period
Remaining amortization period	Based on amortization periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.00%
Cost-of-living adjustment	3.00%
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

## **Supplementary Information**

**CAPITAL REGION WATER**  
**COMBINING BALANCE SHEET**  
DECEMBER 31, 2015

<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	\$ 7,471,622	\$ 17,997,007	\$ 444,977	\$ 1,145,737	\$ -	\$ 27,059,343
Accounts receivable, net of allowance for uncollectible accounts of \$2,422,717, \$6,199,749, zero, and zero	4,281,969	5,727,030	-	4,757	-	10,013,756
Due from the City of Harrisburg	482,848	1,177,435	-	503,366	-	2,163,649
Other receivables	64,192	-	-	-	-	64,192
Prepaid expenses	154,897	252,766	-	126,408	-	534,071
Inventory	-	484,111	-	-	-	484,111
Due from (to) other funds	472,005	252,701	-	-	(724,706)	-
Total current assets	<u>12,927,533</u>	<u>25,891,050</u>	<u>444,977</u>	<u>1,780,268</u>	<u>(724,706)</u>	<u>40,319,122</u>
Restricted assets:						
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,384,460	261,322	-	250,000	-	3,895,782
Investments - restricted under trust indentures	30,004,851	14,715,322	-	-	-	44,720,173
Total restricted assets	<u>33,389,311</u>	<u>14,976,644</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>48,615,955</u>
Noncurrent assets:						
Capital assets, not being depreciated	3,224,481	47,275,825	-	-	-	50,500,306
Capital assets, being depreciated, net of accumulated depreciation of \$49,709,265, \$64,251,362, zero, and \$33,241	57,322,384	32,597,718	-	349,110	-	90,269,212
Prepaid debt insurance costs	246,235	-	-	-	-	246,235
Total noncurrent assets	<u>60,793,100</u>	<u>79,873,543</u>	<u>-</u>	<u>349,110</u>	<u>-</u>	<u>141,015,753</u>
Total Assets	107,109,944	120,741,237	444,977	2,379,378	(724,706)	229,950,830
<b>Deferred Outflows of Resources:</b>						
Deferred loss on refunding	9,204,547	-	-	-	-	9,204,547
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 116,314,491</u>	<u>\$ 120,741,237</u>	<u>\$ 444,977</u>	<u>\$ 2,379,378</u>	<u>\$ (724,706)</u>	<u>\$ 239,155,377</u>

(Continued)

# CAPITAL REGION WATER

## COMBINING BALANCE SHEET

DECEMBER 31, 2015  
(Continued)

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Liabilities and Net Position</b>						
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 499,365	\$ 6,192,073	\$ 197,737	\$ 139,442	\$ -	\$ 7,028,617
Current portion of compensated absences	113,662	81,229	-	56,591	-	251,482
Due to the City of Harrisburg	1,261,655	439,474	160,420	-	-	1,861,549
Due to other funds	-	-	-	724,706	(724,706)	-
Total current liabilities	<u>1,874,682</u>	<u>6,712,776</u>	<u>358,157</u>	<u>920,739</u>	<u>(724,706)</u>	<u>9,141,648</u>
Liabilities payable from restricted assets:						
Accrued interest payable	2,856,644	-	-	-	-	2,856,644
Current portion of notes payable	-	163,561	-	-	-	163,561
Current portion of bonds payable	4,640,000	-	-	-	-	4,640,000
Total liabilities payable from restricted assets	<u>7,496,644</u>	<u>163,561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,660,205</u>
Noncurrent liabilities:						
Compensated absences	144,387	107,677	-	75,016	-	327,080
Due to the City of Harrisburg	38,421	999,834	-	-	-	1,038,255
Notes payable	4,583,700	18,795,238	-	-	-	23,378,938
Bonds outstanding, net of discount of \$525,477, zero, zero, and zero	131,375,523	29,660,000	-	-	-	161,035,523
Other post-employment benefit liability	81,542	59,466	-	20,699	-	161,707
Unearned revenue	831,560	16,177	-	-	-	847,737
Total noncurrent liabilities	<u>137,055,133</u>	<u>49,638,392</u>	<u>-</u>	<u>95,715</u>	<u>-</u>	<u>186,789,240</u>
Total Liabilities	<u>146,426,459</u>	<u>56,514,729</u>	<u>358,157</u>	<u>1,016,454</u>	<u>(724,706)</u>	<u>203,591,093</u>
<b>Net Position:</b>						
Net investment in capital assets	(42,656,905)	44,207,934	-	349,110	-	1,900,139
Restricted						
Guarantee agreement	-	-	-	250,000	-	250,000
Water operations	2,587,996	-	-	-	-	2,587,996
Sewer operations	-	2,023,454	-	-	-	2,023,454
Insurer agreement	-	-	86,820	-	-	86,820
Unrestricted	9,956,941	17,995,120	-	763,814	-	28,715,875
Total Net Position	<u>(30,111,968)</u>	<u>64,226,508</u>	<u>86,820</u>	<u>1,362,924</u>	<u>-</u>	<u>35,564,284</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 116,314,491</u>	<u>\$ 120,741,237</u>	<u>\$ 444,977</u>	<u>\$ 2,379,378</u>	<u>\$ (724,706)</u>	<u>\$ 239,155,377</u>

(Concluded)

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2015**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Operating Revenues:</b>						
User charges	\$ 19,729,896	\$ 16,605,674	\$ -	\$ -	\$ -	\$ 36,335,570
Administrative fees	-	-	-	4,977,551	(4,868,606)	108,945
Total operating revenues	<u>19,729,896</u>	<u>16,605,674</u>	<u>-</u>	<u>4,977,551</u>	<u>(4,868,606)</u>	<u>36,444,515</u>
<b>Operating Expenses:</b>						
Operating	4,541,541	6,555,225	265,838	-	-	11,362,604
Administrative	2,404,134	2,464,472	-	4,763,767	(4,868,606)	4,763,767
Depreciation	2,165,587	1,983,825	-	21,547	-	4,170,959
Total operating expenses	<u>9,111,262</u>	<u>11,003,522</u>	<u>265,838</u>	<u>4,785,314</u>	<u>(4,868,606)</u>	<u>20,297,330</u>
<b>Operating Income (Loss)</b>	<u>10,618,634</u>	<u>5,602,152</u>	<u>(265,838)</u>	<u>192,237</u>	<u>-</u>	<u>16,147,185</u>
<b>Non-Operating Revenues (Expenses):</b>						
Investment income	880,106	76,961	3,403	4,920	-	965,390
Intergovernmental revenue	282,101	46,323	-	-	-	328,424
Miscellaneous expense	(76,566)	(1,083)	-	15,369	-	(62,280)
Interest expense	(7,928,923)	(175,949)	-	-	-	(8,104,872)
Total non-operating revenues (expenses)	<u>(6,843,282)</u>	<u>(53,748)</u>	<u>3,403</u>	<u>20,289</u>	<u>-</u>	<u>(6,873,338)</u>
<b>Change in Net Position Before Transfers and Special Item</b>	3,775,352	5,548,404	(262,435)	212,526	-	9,273,847
Transfers in (out)	(362,137)	-	-	362,137	-	-
Special item	-	-	(337,200)	-	-	(337,200)
<b>Change in Net Position</b>	3,413,215	5,548,404	(599,635)	574,663	-	8,936,647
<b>Net Position:</b>						
Beginning of year	(33,525,183)	58,678,104	686,455	788,261	-	26,627,637
End of year	<u>\$ (30,111,968)</u>	<u>\$ 64,226,508</u>	<u>\$ 86,820</u>	<u>\$ 1,362,924</u>	<u>\$ -</u>	<u>\$ 35,564,284</u>

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Eliminations	Total
<b>Cash Flows From Operating Activities:</b>						
Receipts from customers and users	\$ 18,218,169	\$ 15,109,552	\$ -	\$ 89,164	\$ -	\$ 33,416,885
Receipts for interfund services	-	-	-	5,309,339	(5,309,339)	-
Payments to employees	(1,502,051)	(1,787,449)	-	(2,290,962)	-	(5,580,462)
Payments to suppliers	(2,880,274)	(3,741,009)	(68,101)	(3,333,477)	-	(10,022,861)
Payments for interfund services	(2,272,009)	(3,037,330)	-	-	5,309,339	-
Net cash provided by (used in) operating activities	11,563,835	6,543,764	(68,101)	(225,936)	-	17,813,562
<b>Cash Flows From Noncapital Financing Activities:</b>						
Transfers	(362,137)	-	-	362,137	-	-
Net cash provided by (used in) noncapital financing activities	(362,137)	-	-	362,137	-	-
<b>Cash Flows From Investing Activities:</b>						
Sales (purchases) of investments, net	(1,349,683)	11,686,429	-	-	-	10,336,746
Investment income received	808,564	76,961	3,403	4,920	-	893,848
Net cash provided by (used in) investing activities	(541,119)	11,763,390	3,403	4,920	-	11,230,594
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from debt issuance	4,583,700	10,481,127	-	-	-	15,064,827
Acquisition and construction of capital assets	(1,152,456)	(25,226,158)	-	(242,763)	-	(26,621,377)
Interest paid	(6,860,792)	(680,320)	-	-	-	(7,541,112)
Principal paid on long-term debt	(5,005,000)	(174,949)	-	-	-	(5,179,949)
Intergovernmental revenue	217,909	62,500	-	-	-	280,409
Payment to bond insurer	-	-	(337,200)	-	-	(337,200)
Net cash used in capital and related financing activities	(8,216,639)	(15,537,800)	(337,200)	(242,763)	-	(24,334,402)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,443,940	2,769,354	(401,898)	(101,642)	-	4,709,754
<b>Cash and Cash Equivalents:</b>						
Beginning of year	8,412,142	15,488,975	846,875	1,497,379	-	26,245,371
End of year	\$ 10,856,082	\$ 18,258,329	\$ 444,977	\$ 1,395,737	\$ -	\$ 30,955,125

(Continued)

**CAPITAL REGION WATER**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(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)	\$ 10,618,634	\$ 5,602,152	\$ (265,838)	\$ 192,237	\$ -	\$ 16,147,185
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:						
Depreciation	2,165,587	1,983,825	-	21,547	-	4,170,959
Loss on disposal of assets	84,554	-	-	-	-	84,554
Miscellaneous nonoperating income (expense)	(33,382)	(1,083)	-	15,369	-	(19,096)
Increase in accounts receivable	(1,591,019)	(1,525,289)	-	(4,757)	-	(3,121,065)
(Increase) decrease in due from the City of Harrisburg	79,292	29,167	-	(30,393)	-	78,066
(Increase) decrease in prepaid expenses	(37,241)	31,366	-	(75,690)	-	(81,565)
Decrease in inventory	-	41,491	-	-	-	41,491
(Increase) decrease in due from (to) other funds	132,125	(572,858)	-	440,733	-	-
Increase (decrease) in accounts payable	(37,826)	217,326	197,737	(153,622)	-	223,615
Increase (decrease) in Due to the City of Harrisburg	129,045	651,788	-	(494,247)	-	286,586
Increase (decrease) in compensated absences	(27,476)	26,413	-	(157,812)	-	(158,875)
Increase in other post-employment benefit liability	81,542	59,466	-	20,699	-	161,707
Net cash provided by (used in) operating activities	<u>\$ 11,563,835</u>	<u>\$ 6,543,764</u>	<u>\$ (68,101)</u>	<u>\$ (225,936)</u>	<u>\$ -</u>	<u>\$ 17,813,562</u>

(Concluded)

**CAPITAL REGION WATER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2015**

<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: Capitalization Grants for Clean Water State Revolving Funds	66.458	71400	\$ -	\$ 11,824,863
<b>U.S. Department of Homeland Security:</b>				
Passed through Pennsylvania Emergency Management Agency: Disaster Grants - Public Assistance	97.036	N/A	-	211,576
<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	-	1,705
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 12,038,144</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, 2015

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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-133, *Audits of States, Local Governments, and Non-Profit Organizations* (A-133), 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 A-133 or 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.