

Capital Region Water

Financial Statements and Required
Supplementary Information and
Supplementary Information

Years Ended December 31, 2022 and 2021
with Independent Auditor's Reports

MaherDuessel

The logo for MaherDuessel features the company name in a serif font. The word "Maher" is in black, and "Duessel" is in blue. Below the text is a horizontal bar that is black on the left and blue on the right, matching the color of the text.

CAPITAL REGION WATER

YEARS ENDED DECEMBER 31, 2022 AND 2021

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CAPITAL REGION WATER

YEARS ENDED DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

**Members of the Board of Directors
Capital Region Water**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Capital Region Water (CRW), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the CRW's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of CRW, as of December 31, 2022, and 2021, and the changes in financial position and cash flows thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CRW, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the financial statements, CRW adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases*," which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CRW's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CRW's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CRW's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CRW's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal awards, 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* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 supplementary information is 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 28, 2023, 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 solely 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 the effectiveness of CRW's 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.

Mahe Duessel

Harrisburg, Pennsylvania
September 28, 2023

CAPITAL REGION WATER
2022 Financial Statements
Management’s Discussion and Analysis

Capital Region Water’s (CRW) comparative 2022 and 2021 fiscal year financial statements enclosed have been conformed to meet the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.”* The financial statements incorporate three basic statements: The Balance Sheet, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

This Management’s Discussion and Analysis (MD&A) is based upon facts, decisions, and conditions known as of the date of the audit report. Please note that the historical information provided in the financial statements and MD&A reflects the results of past operations and is not necessarily indicative of results of future operations. Future operations will be affected by a range of factors, including but not limited to regulatory mandates, rate changes, weather, labor contracts, population changes, business environment and other matters, the nature and effect of which cannot now be determined.

Using This Financial Report – Overview of Reporting Changes

The Balance Sheet presents information about the resources which are available to CRW and claims against these resources. Both assets and liabilities are classified in a format which segregates current from noncurrent. In addition, assets available for special purposes – labeled “restricted assets” - are segregated from those assets available for operations. CRW’s restricted assets represent money on deposit with the bond trustee to meet indenture, debt service, and construction program requirements. Liabilities have a similar classification segregating claims on restricted assets from claims on assets available for operations. The net position section of the Balance Sheet classifies the total net position as net investment in capital assets, restricted, and unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position summarize operating and non-operating activity for the fiscal year and the resulting impact on CRW’s net position.

The Statement of Cash Flows have been prepared using the direct method. The statements provide an analysis of CRW’s cash by operating, investing, and capital and related financing activities over the respective fiscal year.

For fiscal year 2022, CRW adopted GASB Statement No. 87, recognizing assets and liabilities of certain lease contracts, both as a lessor of land for a cell phone tower and as a lessee for street cleaning vehicles. While adopted in 2022, the audit recognizes the 2021 impact of these leases for purposes of the comparative Balance Sheet. The following Financial and Operational Highlights identify this activity and point out the changes made to the 2021 Balance Sheet from what was reported in the 2021 audit.

2022 Financial and Operational Highlights

- CRW’s Total Assets increased \$11.8 million to \$336.3 million while Total Liabilities fell \$6.5 million to \$188.7 million. Adjusting for deferred inflows and outflows, the Total Net Position for CRW increased \$17.5 million to \$147.3 million.
- Operating Revenues of \$53.5 million were \$969 thousand or 1.8% higher than in 2021. Operating Expenses before depreciation increased \$3.0 million while administrative Expenses increased \$303 thousand.
- Net Income for 2022 was \$17.5 million, a decrease of \$2.6 million from 2021.
- Billed water volume of 1.832 billion gallons was 69 million gallons higher than in the previous year, but still lagged pre-Covid 2019 by 40 million gallons.

- The Authority closed on two additional loans through the Pennsylvania Infrastructure Investment Authority (Pennvest) in 2022. \$41.6 million will be drawn upon over the next several years to fund multi-year water projects, and \$65 million will be utilized to fund wastewater projects. Both loans have 20-year terms, interest rates of 1.0%, and allow the borrower to pay interest only on the drawn down balances during the construction period.

CAPITAL REGION WATER
CONDENSED COMPARATIVE BALANCE SHEET
ON DECEMBER 31ST OF 2022 AND 2021
(Dollars expressed in thousands)

	December 31,		Variance	
	2022	2021	Dollars	%
Capital assets:				
Lease Receivable, net of current portion	\$ 3,575	\$ 3,622	\$ (47)	-1.30%
Capital assets, not being depreciated	53,884	47,399	6,485	13.68%
Capital assets, net of accumulated depreciation	201,650	191,530	10,120	5.28%
Net pension asset	2,160	2,270	(110)	-4.85%
Restricted assets	29,095	28,689	406	1.42%
Current assets	45,887	50,991	(5,104)	-10.01%
Total Assets	336,251	324,501	11,750	3.62%
Deferred Outflows of Resources	6,721	6,647	74	1.11%
Liabilities:				
Current liabilities	24,885	25,210	(325)	-1.29%
Long-term liabilities	163,780	169,965	(6,185)	-3.64%
Total Liabilities	188,665	195,175	(6,510)	-3.34%
Deferred Inflows of Resources	7,008	6,193	815	13.16%
Net Position:				
Net investment in capital assets	107,949	84,934	23,015	27.10%
Restricted	6,876	6,147	729	11.86%
Unrestricted	32,474	38,699	(6,225)	-16.09%
Total Net Position	\$ 147,299	\$ 129,780	\$ 17,519	13.50%

Total Assets increased in 2022 by \$11.8 million to \$336.3 million:

- Construction in Progress totaling \$53.3 million increased \$6.5 million, primarily on multi-year wastewater system projects. \$16.7 million in capital projects were closed in 2022, offset by \$6.5 million in depreciation. Linear infrastructure consisting of water, sewer, and stormwater piping and related appurtenances had the highest value of projects closed at \$13.7 million as CRW continues to focus on upgrades and rehabilitation of aged and undersized infrastructure that has outlived its useful life.

- Net Pension and Restricted Assets saw fairly stable balances year over year, while Current Assets fell by \$5.1 million. Cash and Cash Equivalent balances fell by \$8 million, although \$5 million of that decrease was to fund CRW's laddered portfolios for water and wastewater through the Pennsylvania Local Government Investment Trust, a state administered government investment pool. The remaining draw was related to CRW utilizing cash balances annually to fund certain planned capital projects that are typically lower in value or more annual in nature, such as vehicle replacements and annual planned infrastructure upgrades. The mix of cash and debt funded capital purchases allows CRW to better manage volumetric rate fluctuations through the establishment of reserves whose balance can fluctuate to absorb changes in capital spending from year to year. Accounts Receivable net of Allowances decreased \$1.6 million, due primarily to suburban wholesale accounts paying their balances in December as opposed to allowing the balances to carry over into the next fiscal year as many did in 2021.

Total liabilities fell \$6.5 million to \$188.7 million. Major differences from prior year include:

- Bond payments reduced outstanding debt balances by \$9 million.
- In early 2022 CRW repaid \$2 million it had borrowed against its wastewater line of credit, and in December 2022 borrowed \$2.9 million as interim financing for several wastewater capital projects.
- Notes Payable increased \$2.4 million as additional Pennvest loans were drawn on to pay for capital projects.
- Other Post Employment Benefits fell by \$418 thousand, Accounts Payable by \$277 thousand, and Accrued Interest Payable by \$166 thousand.

CAPITAL REGION WATER
CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR 2022 AND 2021

	Year Ended December 31,		Variance	
	2022	2021	Dollars	%
			Increase (Decrease)	
Operating revenues	\$ 53,518	\$ 52,549	\$ 969	1.84%
Operating expenses:				
Operating	19,139	16,095	3,044	18.91%
Administrative	5,990	5,687	303	5.33%
Depreciation	6,656	6,410	246	3.84%
Total Operating Expenses	31,785	28,192	3,593	12.74%
Operating income	21,733	24,357	(2,624)	-10.77%
Non-operating revenues (expenses):				
Investment income	494	75	419	558.67%
Grant revenue	279	263	16	6.08%
Gain on sale of easements	-	-	-	#DIV/0!
Miscellaneous income (expense)	310	974	(664)	-68.17%
Gain (Loss) on disposal of capital asset	89	-	89	#DIV/0!
Lease principal revenue	114	27	87	322.22%
Lease interest revenue	3	2	1	50.00%
Interest expense	(5,503)	(5,618)	115	-2.05%
Total Non-operating Revenues (Expenses)	(4,214)	(4,277)	(372)	8.70%
Net Income/(Loss)	\$ 17,519	\$ 20,080	\$ (2,561)	-12.75%

(Dollars expressed in thousands)

Operating Revenues grew at a modest 1.8% or just under \$1 million over 2021 results. Some of the more significant variances year over year include:

- Water and wastewater volumetric and ready-to-serve charges combined were up \$2.2 million. The increase was the result of a 3% volumetric rate increase for water service, a 4% rate increase for wastewater service, and a 69 million gallons water usage increase over 2021. The increased water usage occurred primarily with non-residential accounts that experienced sharp decreases in 2020 due to Covid closures. These non-residential accounts have been slow to recover, seeing only modest increases in 2021.
- Accounts Receivable allowances for bad debts, leak adjustments, customer refunds, bankruptcy recoveries, and stormwater credits combined to reduce revenues \$1.2 million more than in 2021. Of particular note, CRW booked an additional \$451 thousand in allowances for bad debts due primarily to the Commonwealth's current position related to the payment of stormwater fees. An allowance of \$397 thousand was also booked against a balance due from one of the suburban communities.
- Contractor waste hauling fees were significantly depressed in 2022, down \$285k from the previous year following a decision early in the year to limit the receipt of sludge from several customers due to very high ammonia concentrations that could have damaged the treatment process during the colder months. These fees were slow to recover, although later in 2022 we did see a return to monthly budgeted revenues.
- In 2022 CRW was able to sell nutrient credits to another authority that was struggling to meet its regulatory obligations. \$193 thousand was received in 2022 while no credits were sold in 2021.
- Late penalties increased \$62 thousand in 2022, a by-product of the rate increases and higher receivable balances before allowances.

Operating Expenses of \$19.1 million were \$3.0 million higher than in 2021. Major components include:

- Compensation & Benefits of \$8.7 million were \$236 thousand or 2.8% higher than in 2021. Labor costs and associated benefits were higher due to contractual wage and performance-based salary increases, however vacancies in operations reduced the impact of wage increases and instead increased overtime costs by \$306 thousand. The temporary vacancies also led to \$172 thousand in reduced health insurance costs.
- Utilities, including water, wastewater, stormwater, electric, gas, and refuse, increased \$758 thousand in 2022 to \$3.4 million. Significant increases include:
 - An additional \$258 thousand in wastewater treatment costs for the water treatment plant. Following a Pennsylvania Department of Environmental Protection inspection in the fall of 2021, it was determined that filter flow rates needed to be increased. This additional filtration resulted in higher wastewater treatment flows, which impacted 2021 costs during the last several months of the year and continued throughout 2022. CRW has retained an engineering firm to review operations for opportunities to reduce this waste by-product of water treatment.
 - An additional \$271 thousand in biosolid disposal costs at CRW's wastewater treatment plant. CRW anticipates land application of biosolids as a relatively inexpensive disposal method which has many benefits to the farming soil. Unfortunately, in late 2021 and 2022 CRW experienced a reduction in the number of farms available to transport biosolids to and unfavorable weather conditions, resulting in significantly higher costs to landfill the waste.
 - An additional \$171 thousand in electrical costs, primarily at CRW's wastewater treatment plant and pump stations. Although a significant portion of the treatment plant's anticipated energy costs are contracted at a fixed block rate, consumption over that fixed usage is priced to market, which saw significant increases in pricing, along with capacity and transmission costs, which are not under contracted pricing.

- Professional & Contract Services expenditures totaled \$2.4 million in 2022, an increase of \$536 thousand from 2021. Engineering Services costs increased from \$630 thousand to \$1.1 million, account for almost half of the total professional & contract services spending, and virtually all of the increase from 2021. These engineering costs were anticipated to be significantly higher than in 2021, which was lower than anticipated due to timing of projects, specifically a delay in the start of asset management development which was in full swing in 2022. Legal and professional services increased by \$177 thousand due to continued challenges to CRW's stormwater fee and consent decree negotiations.
- Chemical costs of \$499 thousand were up \$206k over 2021 expenditures, due to increased pricing and additional usage.
- Recorded OPEB expenses of \$689 thousand in 2022 was \$400 thousand higher than in 2021. A majority of the cost was based on the change of actuarial accrued liabilities from last year, and included two newly added retirees whose accrued liabilities alone increased the expenditure by \$338 thousand.
- CRW's programs to assist customers includes a financial needs-based assistance program that provides up to \$200 annually, and relief of repairs to service lines that occur in the public right-of-way. These programs saw continued growth in 2022 with \$462 thousand in relief provided, up \$267 thousand from 2021. This variance is primarily due to increases in water service line and sewer lateral line repairs to address aging infrastructure and reduce leaks.
- The pension valuation resulted in a decrease of expenditures in 2022 of \$144 thousand, which was \$281 thousand less than the decrease posted in 2021.

Administrative Expenses of \$6.0 million in 2022 was up \$303 thousand over 2021 costs:

- Administrative staffing costs (compensation and benefits) of \$5.0 million were \$161 thousand higher than in 2021. The primary drivers of this increase included performance-based and labor negotiated wage increases, and payroll/benefit impacts of new hires, partially offset by temporary vacancies.
- In addition to the GASB 68 pension adjustment recorded under Other Indirect Fees for operational costs, \$121 thousand in favorable pension adjustments were recorded under administrative expenses based on administrative payroll costs. This compares unfavorably to the \$235k recorded in 2021, resulting in an unfavorable year over year variance of \$114 thousand.
- Treasury Expenses of \$346 thousand were \$75 thousand lower than in 2021. CRW moved its lockbox processing to a new banking partner in 2021, reducing lockbox fees by \$47 thousand from 2020 and an additional \$64k in 2022.
- Other costs identified as Administrative have significantly lower annual expenditures and do not individually have a significant impact on the year over year analysis.

Depreciation Expense of \$6.7 million was \$246 thousand higher than in the previous year.

Non-Operating Revenues of \$1.3 million were \$51 thousand lower than in 2021.

- CRW responded to rising interest rates in 2022 by beginning to create a laddered portfolio consisting of certificates of deposit and local government investment pools. These investments, along with rising money market rates, resulted in a significant increase in investment income, rising by \$419 thousand to \$494 thousand for the year.
- Health insurance dividends based on CRW's previous year experience rating increased significantly in 2021 as Covid kept many who did not become seriously ill from visiting emergency rooms or scheduling minor surgery. The insurance cost savings realized in 2020 was returned to CRW in the form of \$755 thousand in insurance dividends. Medical procedures were somewhat back to normal by 2021, and the resulting 2022 dividend dropped to \$341 thousand, a year over year unfavorable variance of \$414 thousand.

- Grant revenues of \$263 thousand reflect final costs of \$176k reimbursed under an Impact Harrisburg grant and \$103k of FEMA Covid-19 Emergency Protection cost reimbursement. The grant totals exceed those received in 2021 by \$16 thousand.

Non-Operating (Interest) Expense of \$5.5 million is \$115 thousand lower than in 2021. Interest payments on CRW bonds in total declined \$177 thousand to \$5.1 million, while Pennvest loan interest payments increased \$46 thousand to \$406 thousand due to additional draws for capital project reimbursements. CRW also incurred \$21 thousand in interest expense in 2022 from temporary withdrawals from its sewer line of credit.

2021 Financial and Operational Highlights

- CRW's Total Assets increased \$15.9 million to \$320.8 million while Total Liabilities fell \$5.6 million to \$195.2 million. Adjusting for deferred inflows and outflows, the Total Net Position for CRW increased \$20.1 million to \$129.8 million.
- Operating Revenues of \$52.5 million were \$6.5 million or 14.1% higher than in 2020. Operating Expenses before depreciation increased \$1.0 million or 6.7% while administrative Expenses fell \$146 thousand or 2.5%.
- Net Income for 2021 was \$20.1 million, an increase of \$5.0 million from 2020.
- CRW continued to feel the impact of the Coronavirus pandemic in 2021:
 - Despite water and wastewater rate increases in both 2020 and 2021, combined revenues for these segments, although improved from 2020, still lagged 2019 revenues due to lower water usage, primarily in the commercial sector. Non-residential water usage of 832 million gallons in 2021 was 11% lower than water usage in 2019. This 101 million gallon deficit compared to 2019 volumes resulted in a loss of \$1.8 million in combined revenues in 2021.
 - A moratorium on water service terminations that was in place throughout 2020 continued through June of 2021, resulting in higher aged accounts receivable balances compared to comparable time periods prior to the pandemic.
 - CRW continued its pandemic protocols through much of 2021, with administrative staff working remotely when feasible through mid-July, operational staff maintaining safe distances through the use of rental vehicles and adaptive work schedules, and the administrative office remaining closed to the public until September. These protocols, while reducing potential exposure and spread of the virus, contributed to higher operational costs and reduced opportunities for face-to-face customer relations, which may have further impacted our ability to convert receivable balances to cash.
- 2021 revenues included the first full year of stormwater fees, contributing \$5.3 million in revenues compared to the partial year revenues of \$1.3 million in 2020.
- The Authority closed on a \$21 million, 1%, 20-year term loan through the Pennsylvania Infrastructure Investment Authority (Pennvest). The proceeds are being used to fund construction costs of CRW's wastewater collection system rehabilitation program over the next several years.

Note: The fiscal year 2021 financial information has been restated in these comparative reports to match those shown in the comparative statements for 2022 and 2021. Specifically, the impact on 2021 of CRW adopting GASB Statement No. 87, recognizing assets and liabilities of certain lease contracts, both as a lessor of land for a cell phone tower and as a lessee for street cleaning vehicles. While adopted in 2022, the audit recognizes the 2021 impact of these leases for purposes of the comparative statements. CRW has not restated 2020 financial data in these comparative financial reports, resulting in changes in reported variances in Lease Receivables and Current

Assets combined of \$3,668,679 reflecting future principal payments to CRW anticipated from American Tower LLC for continued use of CRW land in the utilization of a cell phone tower. Deferred Inflows increased by \$3,642,175 as well, resulting in a total Net Position change of \$26,504. This net change is reflected in Statement of Revenues, Expenses, and Changes in Net Position as Lease Revenues, net of a minor change in Miscellaneous Income.

CAPITAL REGION WATER
CONDENSED COMPARATIVE BALANCE SHEET
ON DECEMBER 31ST OF 2021 AND 2020
(Dollars expressed in thousands)

	December 31,		Variance	
	2021	2020	Dollars	%
Capital assets:				
Lease Receivable, net of current portion	\$ 3,622	\$ -	\$ 3,622	
Capital assets, not being depreciated	47,399	41,304	6,095	14.76%
Capital assets, net of accumulated depreciation	191,530	182,981	8,549	4.67%
Net pension asset	2,270	794	1,476	185.89%
Restricted assets	28,689	29,473	(784)	-2.66%
Current assets	50,991	50,429	562	1.11%
Total Assets	324,501	304,981	19,520	6.40%
Deferred Outflows of Resources	6,647	7,312	(665)	-9.09%
Liabilities:				
Current liabilities	25,210	25,532	(322)	-1.26%
Long-term liabilities	169,965	175,225	(5,260)	-3.00%
Total Liabilities	195,175	200,757	(5,582)	-2.78%
Deferred Inflows of Resources	6,193	1,835	4,358	
Net Position:				
Net investment in capital assets	84,934	61,450	23,484	38.22%
Restricted	6,147	6,140	7	0.11%
Unrestricted	38,699	42,110	(3,411)	-8.10%
Total Net Position	\$ 129,780	\$ 109,700	\$ 20,080	18.30%

Total Assets increased in 2021 by \$15.9 million to \$320.8 million, before adjustments for GASB 87:

- Construction in Progress totaling \$46.8 million increased \$6.1 million, primarily on multi-year wastewater system projects. \$14.8 million in capital projects were closed in 2021, offset by \$6.3 million in depreciation. Linear infrastructure consisting of water, sewer, and stormwater piping and related appurtenances had the highest value of projects closed at \$7.8 million as CRW continues to focus on upgrades and rehabilitation of aged and undersized infrastructure that has outlived its useful life.
- CRW's pension evaluation, which was a liability of over \$1 million in 2019, has recovered over the past two years and is now an asset of \$2.3 million, \$1.5 million higher than in 2020.

- Restricted investments fell as CRW utilized the remaining funds available in the 2018 water bond construction fund to finance ongoing projects, and 2017 Pennvest wastewater contingency funds were released.
- Current assets increased by \$500 thousand, primarily in stormwater cash balances, the result of a full year of stormwater billing compared to only three months in 2020, an increase in grants receivable for stormwater-related infrastructure grant funds due to CRW from Impact Harrisburg, and an increase in inventory costs.

Total liabilities fell \$5.6 million to \$195.2 million. Major differences from prior year include:

- Bond payments reduced outstanding debt balances by \$9 million.
- CRW borrowed \$2 million against its available lines of credit as interim financing for several wastewater capital projects.
- Notes Payable increased \$1.9 million as additional Pennvest loans were drawn on to pay for capital projects.

CAPITAL REGION WATER
CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR 2021 AND 2020

(Dollars expressed in thousands)

	Year Ended December 31,		Variance	
	2021	2020	Dollars	%
			Increase (Decrease)	
Operating revenues	\$ 52,549	\$ 46,053	\$ 6,496	14.11%
Operating expenses:				
Operating	16,095	15,078	1,017	6.74%
Administrative	5,687	5,833	(146)	-2.50%
Depreciation	6,410	6,059	351	5.79%
Total Operating Expenses	28,192	26,970	1,222	4.53%
Operating income	24,357	19,083	5,274	27.64%
Non-operating revenues (expenses):				
Investment income	75	427	(352)	-82.44%
Grant revenue	263	177	86	48.59%
Gain on sale of easements	-	192	(192)	-100.00%
Miscellaneous income (expense)	974	922	52	5.64%
Gain (Loss) on disposal of capital asset	-	2	(2)	-100.00%
Lease principal revenue	27	-	27	
Lease interest revenue	2	-	2	
Interest expense	(5,618)	(5,726)	108	-1.89%
Total Non-operating Revenues (Expenses)	(4,277)	(4,006)	187	-4.67%
Net Income/(Loss)	\$ 20,080	\$ 15,077	\$ 5,003	33.18%

Operating Revenues grew 14.1% or \$6.5 million compared to 2020. Stormwater revenues accounted for over \$4 million of the increase, as 2021 marked the first full year of stormwater charges. Stormwater fees were assessed to City of Harrisburg residential and commercial properties only in the 4th quarter of 2020. Water and wastewater charges of \$47.3 million combined were up \$2.4 million or 5.0%. The increase was the result of a 2% volumetric rate increase for water service, a 3% rate increase for wastewater service, and slightly higher metered water usage in 2021, primarily with non-residential accounts that experienced sharp decreases in 2020. When compared against the pre-pandemic 2019 fiscal year, water and wastewater revenues combined were \$400 thousand lower in 2021 despite rate increases in both 2020 and 2021. This is due to the impact of the pandemic on water usage, with 2021 metered volume roughly 60 million gallons lower than in 2019.

Operating and Administrative expenses increased from 2020 due to several factors:

- An increase in water and wastewater variable treatment costs resulted from higher volumes of water and wastewater treated at the plants.
- 2021 saw a full year of costs related to bringing stormwater services in-house.
- Pandemic-related costs were incurred to deal with the pandemic and to reduce opportunities to transmit Covid, included long-term vehicle rentals to eliminate the close contact of multiple riders, additional cleaning and personal protection equipment costs, and modifications of work schedules to further reduce potential contact, which resulted in increased overtime costs.
- Inflationary increases in most purchases well over expectation with the CPI for Northeast Urban Wage Earners and Clerical Workers ending the year at 4.3%, well over the 1.3% experienced in 2020.

Operating Expenses of \$16.1 million were \$1.0 million (6.7%) higher than in 2020. Major components include:

- Compensation & Benefits of \$8.5 million were \$609 thousand or 7.7% higher than in 2020. The GASB 68 pension evaluation resulted in favorable adjustments to CRW's pension contribution for 2020, accounting for over a quarter of the unfavorable variance. GASB 68 pension evaluation entries for 2021 are separately identified as a favorable offset to Other Indirect Fees. Wages, overtime, and health insurance costs make up a majority of the remaining variance. CRW hired a manager and street sweeping crew in mid-2020 as it brought all stormwater-related activities in-house. 2021 labor costs and associated benefits were higher due to the full-year impact of these new positions, contractual wage and performance-based salary increases, and Covid-related modifications to work schedules that resulted in higher overtime costs to allow for increased sick time taken and reduced opportunities for exposure.
- Utilities, including water, wastewater, stormwater, electric, gas, and refuse, increased \$357 thousand in 2021 to \$2.7 million. Significant increases include:
 - An additional \$76 thousand in wastewater treatment costs for the water treatment plant. Following a Pennsylvania Department of Environmental Protection inspection in the fall of 2021, it was determined that filter flow rates needed to be increased. This additional filtration resulted in higher wastewater treatment flows, which impacted 2021 costs during the last several months of the year and will continue to impact costs in 2022 and beyond.
 - An additional \$182 thousand in biosolid disposal costs at CRW's wastewater treatment plant. CRW anticipates land application of biosolids as a relatively inexpensive disposal method which has many benefits to the farming soil. Unfortunately, in 2021 CRW experienced a reduction in the number of farms available to transport biosolids to, resulting in significantly higher costs to landfill the waste.
 - An additional \$107 thousand in electrical costs, primarily at CRW's wastewater treatment plant. Although a significant portion of the treatment plant's anticipated energy costs are contracted at a fixed block rate, consumption over that fixed usage is priced to market, which saw increases pricing, along with capacity and transmission costs, which are not under contracted pricing.

- Professional & Contract Services expenditures totaled \$1.8 million in 2021, a reduction of \$163 thousand from 2020. CRW brought all street sweeping activities in-house during the 2020 fiscal year. Those third-party street sweeping costs in 2020 totaled \$197 thousand. This favorable variance was partially offset under contract services with street sweeping debris removal totaling \$106 thousand in 2021. Engineering services costs fell in 2021 from \$741 thousand to \$630 thousand due to the timing of projects, specifically a delay in the start of asset management development. Legal and professional services increased by \$177 thousand due to continued challenges to CRW's stormwater fee and consent decree negotiations.
- Maintenance & Repair of \$1.0 million was \$228 thousand higher than previous year, primarily due to anticipated heavy maintenance at the water and wastewater treatment plants, fire hydrant purchases for inventory and replacement, and higher fuel prices.
- Other Indirect Fees for 2021 include OPEB benefit expenses and pension evaluation adjustments, among other smaller expense categories. The total of \$53 thousand compares favorably to the 2020 total of \$348 thousand. In 2021 a decision was made to separate the GASB 68 pension evaluation adjustment from compensation & benefits. The 2021 adjustment reduced Other Indirect Fees by \$425 thousand, while the corresponding adjustment in 2020 totaled \$146 thousand and was included as a reduction to Compensation & Benefits. The \$425 thousand favorable variance due to the pension evaluation was partially offset in 2021 by increased costs recorded for the OPEB evaluation.
- CRW's programs to assist customers includes a financial needs-based assistance program that provides up to \$200 annually, and relief of repairs to service lines that occur in the public right-of-way. These programs saw significant growth in 2021 with \$195 thousand in relief provided, up \$188 thousand from 2020. This variance is primarily due to these programs just being introduced in 2019 and 2020, and a Covid-related moratorium on water service terminations that reduced anticipated requests for customer relief.
- Business Insurance increased from \$677 thousand to \$766 thousand, up \$90 thousand primarily in the commercial property line.

Administrative Expenses of \$5.7 million tracked slightly favorable to 2020, lower by \$146 thousand or 2.5%:

- Administrative staffing costs (compensation and benefits) of \$4.9 million were \$466 thousand higher than in 2020. The primary drivers of this increase included performance-based and labor negotiated wage increases, and payroll/benefit impacts of new hires, including the Director of Shared Services that was vacant for a portion of 2020 and the new positions of Payroll & Benefits Manager and IT Technician. CRW also incurred over \$100 thousand in compensated balances for Covid-related absences. Medical, pension, and payroll taxes all increased as a result of the salary increases and new hires.
- In addition to the GASB 68 pension adjustment recorded under Other Indirect Fees for operational costs, \$235 thousand in favorable pension adjustments were recorded under administrative expenses based on administrative payroll costs.
- Treasury Expenses of \$421 thousand were roughly \$71 thousand lower in 2021. CRW moved its lockbox processing to a new banking partner in 2021, reducing lockbox fees by \$47 thousand. Collection-related legal costs fell by an additional \$32 thousand as more customer concerns and administrative tasks were able to be resolved in-house without legal guidance.
- General and Administrative Expenses of \$199 thousand were \$221 thousand lower than 2020. CRW's lease agreement for office space in the City of Harrisburg ended in 2020 with the purchase of a new administration building. The partial year lease payments of \$137 thousand and parking rental costs of \$48 thousand in 2020 represent favorable General & Administrative variances for 2021. Internal painting costs incurred in 2020 to ready the office for occupancy also resulted in favorable variances as these building maintenance costs were not repeated in 2021.

- Professional Services of \$171 thousand were \$103 thousand lower than in 2020. Primarily solicitor costs, the favorable variance to previous year is a combination of CRW's active strategy to rely less on professional services for functions that can be handled internally, and several one-time issues that required legal attention in 2020, including a tax assessment appeal on the newly purchased administration building and Covid-related employment concerns.
- Utility costs, business insurance, community outreach, and information technology expenditures make up the majority of remaining 2021 costs, totaling \$216 thousand and are collectively \$19 thousand lower than in 2020.

Depreciation Expense of \$6.4 million was \$351 thousand higher than in the previous year:

- Depreciation of water assets included the first full year of depreciation for the administration building that was placed into service in late 2020. The 2021 depreciation cost of \$85 thousand was \$56 thousand higher than last year.
- Depreciation on new water and wastewater linear (mains & accessories) infrastructure placed into service increased total depreciation by \$76 thousand.
- CRW recorded \$123 thousand in depreciation expense for three street sweepers that were placed into service in 2020, \$82 thousand more than what was depreciated in the first year.
- Vehicles and motor equipment recently placed into service resulted in an increase in depreciation of \$94 thousand.

Non-Operating Revenues of \$1.3 million before adjustments for GASB 87 were \$406 thousand lower than in 2020. CRW's investment strategy was consistent in 2020 and 2021, limiting investments to U.S. Government obligations within debt service reserve funds, and maintaining stable balances in money market funds. Interest rates continued to fall through most of 2021, reducing investment income over the previous year by \$352 thousand. While CRW may have been able to secure slightly higher yields under alternative investment choices, the marginal anticipated gain was outweighed by the reduced liquidity of the longer term investments. Also impacting the unfavorable variance was the anticipated third and final transaction recorded in 2020 related to the conservation easement within our watershed. This transaction increased the acreage under the easement to the full amount anticipated, and proceeds of \$192 thousand were recorded in 2020, resulting in an unfavorable variance in 2021. Partially offsetting these unfavorable variances, grant revenues of \$263 thousand reflecting costs reimbursed under an Impact Harrisburg grant exceeded 2020 grants received by \$86 thousand. Miscellaneous income was slightly stronger in 2021 as lower timber harvest revenues were more than offset with higher health insurance dividends, and interest expense of \$5.8 million was \$100 thousand less than in 2020 in accordance with bond amortization schedules.

Requests for Information

This financial report is designed to provide a general overview of CRW's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 3003 North Front Street, Harrisburg, PA 17110.

CAPITAL REGION WATER

BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

	2022	2021
Assets and Deferred Outflows of Resources		
Assets:		
Current assets:		
Cash and cash equivalents	\$ 25,410,234	\$ 33,460,091
Investments	5,000,000	-
Accounts receivable, net of allowance for uncollectible accounts of \$7,465,495 and \$6,528,063	11,386,611	12,970,971
Grants receivable	-	470,408
Current portion of lease receivable	47,672	46,162
Due from the City of Harrisburg	3,110,046	3,154,272
Prepaid expenses	512,306	499,149
Inventory	420,144	389,700
Total current assets	45,887,013	50,990,753
Restricted assets:		
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	10,211,157	9,982,127
Investments - restricted under trust indentures	18,883,549	18,706,514
Total restricted assets	29,094,706	28,688,641
Noncurrent assets:		
Lease receivable, net of current portion	3,574,845	3,622,517
Capital assets, not being depreciated	53,883,822	47,399,049
Capital assets, net of accumulated depreciation of \$151,267,081 and \$144,683,414	201,650,317	191,530,521
Net pension asset	2,159,758	2,269,724
Total noncurrent assets	261,268,742	244,821,811
Total Assets	336,250,461	324,501,205
Deferred Outflows of Resources:		
Deferred loss on refunding	4,731,128	5,432,538
Deferred outflows of resources for other postemployment benefits	218,185	264,303
Deferred outflows of resources for pension	1,771,949	950,272
Total Deferred Outflows of Resources	6,721,262	6,647,113
Total Assets and Deferred Outflows of Resources	\$ 342,971,723	\$ 331,148,318

	2022	2021
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,708,741	\$ 7,985,567
Current portion of compensated absences	372,922	303,850
Unearned revenue	245,012	245,012
Due to the City of Harrisburg	4,046,764	4,394,387
Total current liabilities	<u>12,373,439</u>	<u>12,928,816</u>
Liabilities payable from restricted assets:		
Accrued interest payable	2,720,209	2,885,896
Current portion of notes payable	2,035,436	2,013,404
Current portion of lease payable	156,130	151,990
Current portion of bonds payable	7,600,000	7,230,000
Total liabilities payable from restricted assets	<u>12,511,775</u>	<u>12,281,290</u>
Noncurrent liabilities:		
Compensated absences	426,759	425,895
Due to the City of Harrisburg	1,293,948	842,857
Notes payable	35,282,398	32,849,700
Lease payable	312,804	472,352
Line of credit	2,876,838	2,000,000
Bonds outstanding, plus premiums of \$11,446,857 and \$13,216,021	122,746,857	132,116,021
Total other postemployment benefit liability	<u>839,981</u>	<u>1,258,181</u>
Total noncurrent liabilities	<u>163,779,585</u>	<u>169,965,006</u>
Total Liabilities	<u>188,664,799</u>	<u>195,175,112</u>
Deferred Inflows of Resources:		
Deferred inflows of resources for other postemployment benefits	687,224	229,031
Deferred inflows of resources for pension	2,768,701	2,322,137
Deferred inflows of resources for leases	3,551,686	3,642,175
Total Deferred Inflows of Resources	<u>7,007,611</u>	<u>6,193,343</u>
Net Position:		
Net investment in capital assets	107,949,364	84,934,166
Restricted:		
Guarantee agreement	250,000	250,000
Water - restricted under trust indenture requirements	3,605,894	3,556,859
Sewer - restricted under trust indenture requirements	3,020,000	2,340,000
Unrestricted	<u>32,474,055</u>	<u>38,698,838</u>
Total Net Position	<u>147,299,313</u>	<u>129,779,863</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 342,971,723</u></u>	<u><u>\$ 331,148,318</u></u>

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

CAPITAL REGION WATER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Operating Revenues:		
User charges	\$ 53,517,987	\$ 52,548,506
Total operating revenues	53,517,987	52,548,506
Operating Expenses:		
Operating	19,139,084	16,094,648
Administrative	5,989,706	5,686,814
Depreciation	6,656,578	6,409,702
Total operating expenses	31,785,368	28,191,164
Operating Income	21,732,619	24,357,342
Non-Operating Revenues (Expenses):		
Investment income	493,957	75,084
Grant revenue	279,442	263,283
Miscellaneous income (expense)	310,431	974,028
Gain (loss) on disposal of capital assets	89,272	-
Lease principal revenue	114,049	26,281
Lease interest revenue	2,918	1,719
Interest expense	(5,503,238)	(5,617,642)
Total non-operating revenues (expenses)	(4,213,169)	(4,277,247)
Change in Net Position	17,519,450	20,080,095
Net Position:		
Beginning of year, restated	129,779,863	109,699,768
End of year	\$147,299,313	\$129,779,863

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

CAPITAL REGION WATER

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 55,144,460	\$ 52,896,025
Payments to employees	(10,049,911)	(9,960,468)
Payments to suppliers	(15,012,594)	(9,185,330)
Net cash provided by operating activities	<u>30,081,955</u>	<u>33,750,227</u>
Cash Flows From Investing Activities:		
Sales (purchases) of investments, net	(5,177,035)	426,868
Investment income received	493,957	75,084
Net cash provided by (used in) investing activities	<u>(4,683,078)</u>	<u>501,952</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from debt issuance	7,344,861	5,835,596
Acquisition and construction of capital assets	(23,381,020)	(24,061,509)
Proceeds from disposal of capital assets	139,668	-
Interest paid	(6,736,678)	(6,996,181)
Principal paid on long-term debt	(11,243,293)	(8,932,305)
Principal paid on lease payable	(155,408)	(147,971)
Lease principal receipts	69,722	26,281
Lease interest receipts	2,918	1,719
Intergovernmental revenue	739,525	-
Net cash used in capital and related financing activities	<u>(33,219,705)</u>	<u>(34,274,370)</u>
Decrease in Cash and Cash Equivalents	<u>(7,820,828)</u>	<u>(22,191)</u>
Cash and Cash Equivalents:		
Beginning of year	43,442,218	43,464,409
End of year	<u>\$ 35,621,390</u>	<u>\$ 43,442,218</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 21,732,619	\$ 24,357,342
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,656,578	6,409,702
Amortization of deferred outflows and deferred inflows	(836,124)	(670,649)
Miscellaneous nonoperating income	310,431	947,524
(Increase) decrease in:		
Accounts receivable	1,594,686	19,479
Due from the City of Harrisburg	31,787	83,028
Prepaid expenses	(13,157)	132,742
Inventory	(30,444)	(162,973)
Net pension asset	109,966	(1,475,730)
Deferred outflows of resources for total other postemployment benefit liability	15,048	(135,737)
Deferred outflows of resources for pensions	(1,073,373)	672,603
(Decrease) increase in:		
Accounts payable and accrued liabilities	(207,351)	1,825,547
Unearned revenue	-	245,012
Due to the City of Harrisburg	115,907	520,973
Compensated absences	69,934	36,933
Total other postemployment benefit liability	(418,200)	136,483
Deferred inflows of resources for pensions	1,463,502	807,948
Deferred inflows of resources for total other postemployment benefit liability	560,146	-
Net cash provided by operating activities	<u>\$ 30,081,955</u>	<u>\$ 33,750,227</u>
Noncash Capital Financing and Related Financing Activities:		
Financed purchase lease proceeds	<u>\$ -</u>	<u>\$ 52,100</u>

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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 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, wastewater and treatment and conveyance systems services and beginning in October 2020, stormwater treatment and conveyance systems services. Operating expenses include the cost of sales and services,

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Investments

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

Restricted Assets

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Capital Assets

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

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

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Capital assets for the Sewer and Stormwater segments, 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

Leases

As discussed further in Note 4, CRW is a lessor for a noncancellable lease and recognizes a lease receivable and a deferred inflow of resources on the balance sheets.

At the commencement of the lease, CRW initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how CRW determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- CRW uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of incremental payments from the lessee, increasing at the renewal date.

CRW monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CRW is a lessee for noncancellable leases of equipment and vehicles. CRW recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements.

At the commencement of a lease, CRW initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how CRW determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- CRW uses the interest rate charged by the lessor as the discount rate.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that CRW is reasonably certain to exercise.

CRW monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets on the balance sheets.

Debt Financing Costs

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

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

Restricted Resources

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

Use of Estimates

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

Adopted Changes in Accounting Principles

The requirements of the following Governmental Accounting Standards Board (GASB) Statement was adopted for the financial statements:

GASB Statement No. 87, "*Leases*," better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions of this statement have been adopted and incorporated into these financial statements. As a result of this implementation a lease receivable and deferred inflows of resources related to leases of \$3,694,960 were recorded during the year ended December 31, 2021. The net result was a restatement of \$26,604 to increase beginning net position.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Pending GASB Pronouncements

GASB has issued statements that will become effective in future years including 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), 99 (Omnibus), 100 (Accounting Changes and Error Corrections) and 101 (Compensated Absences). Management has not yet determined the impact of these statements on the financial statements.

2. Deposits and Investments

Pennsylvania Act 72 provides for investment of public funds in certain authorized investment types including U.S. Treasury bills; other short-term obligations of the U.S. and federal agencies; short-term commercial paper issued by a public corporation; banker's acceptance; general obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency; insured or collateralized time deposits; and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of public funds for investment purposes.

CRW's permissible investments also include:

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

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Deposits

The deposits of CRW for the years ended December 31, were as follows:

Cash and cash equivalents:	<u>2022</u>	<u>2021</u>
Unrestricted	\$ 25,410,234	\$ 33,460,091
Restricted under trust indentures and guarantee agreement	<u>10,211,157</u>	<u>9,982,127</u>
	<u>\$ 35,621,391</u>	<u>\$ 43,442,218</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’s deposits, which may include certificates of deposit, must be covered by the federal depository insurance corporation (FDIC) or collateralized. Collateral for CRW’s certificates of deposit must be held in the name of CRW. Short-term deposits, not collateralized under FDIC, are to be collateralized with securities held by a third-party in accordance with Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits. Acceptable collateral for CRW’s bank deposits includes only obligations of the U. S. Government, its agencies, and government sponsored entities rated at least in the two highest categories by two nationally recognized statistical rating organizations. The collateral, which may consist of pooled collateral, must be marked to market no less than weekly, and CRW must receive monthly statements. As of December 31, 2022 and 2021, CRW’s book balances were \$35,621,391 and \$43,442,218, respectively. As of December 31, 2022 and 2021, the bank balances were \$36,270,563 and \$43,791,813, respectively. At December 31, 2022 and 2021, \$250,000 and \$250,000 was covered by FDIC insurance and \$36,020,563 and \$43,541,813 was collateralized under the Act, respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Investments

The investments of CRW are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Restricted:		
Money market funds	\$ 14,599,468	\$ 14,505,270
U.S. Government Agency obligations	2,577,449	1,581,679
U.S. Government obligations	<u>1,706,632</u>	<u>2,619,565</u>
Total Restricted	18,883,549	18,706,514
Unrestricted:		
PLGIT Term	<u>5,000,000</u>	-
Total	<u>\$ 23,883,549</u>	<u>\$ 18,706,514</u>

All investments are considered Level 1.

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

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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

There are no investments that exceed the maximum allowable investment by issuer.

Credit Risk – CRW has a formal policy that would limit investment choices to only those types of investments previously noted. CRW's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2022:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 14,599,468	AAAm
U.S. Government Agency Obligations	2,577,449	AAA
U.S. Government Obligations	1,706,632	AAA

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

All of CRW's investments mature in 2023.

CRW uses Pennsylvania Local Government Investment Trust (PLGIT), an external

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

investment pool, to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. PLGIT was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth. PLGIT's investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT issues separately audited financial statements that are available to the public. Further information regarding PLGIT and its investment strategies can be found at www.plgit.com. The fair value of CRW's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool.

CRW is invested in PLGIT/TERM, which is a fixed term investment portfolio that requires a minimum initial investment of \$100,000, a minimum investment period of sixty (60) days and has a premature withdrawal penalty. At December 31, 2022, PLGIT had an average maturity of up to one year, depending upon the termination date of any particular series within the PLGIT/TERM portfolio. CRW had \$5,000,000 and \$0 invested in PLGIT/TERM shares as of December 31, 2022 and 2021, respectively.

3. Capital Assets

The following is summary of capital assets activity for the years ended December 31, as follows:

	Balance at January 1, 2022	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2022
Capital assets, not being depreciated:				
Land	\$ 595,621	\$ -	\$ -	\$ 595,621
Construction in progress	46,803,428	15,317,971	(8,833,198)	53,288,201
Total capital assets, not being depreciated	47,399,049	15,317,971	(8,833,198)	53,883,822
Capital assets, being depreciated:				
Land improvements	1,516,337	26,230	-	1,542,567
Buildings and improvements	130,155,338	158,507	-	130,313,845
Right-to-use leased equipment	764,555	-	-	764,555
Furniture and fixtures	943,255	71,007	(22,171)	992,091
Machinery and equipment	202,834,450	16,601,839	(131,949)	219,304,340
Total capital assets, being depreciated	336,213,935	16,857,583	(154,120)	352,917,398
Less: accumulated depreciation	(144,683,414)	(6,656,578)	72,911	(151,267,081)
Total capital assets being depreciated, net	191,530,521	10,201,005	(81,209)	201,650,317
Total capital assets, net	\$ 238,929,570	\$ 25,518,976	\$ (8,914,407)	\$ 255,534,139

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Balance at January 1, 2021	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2021
Capital assets, not being depreciated:				
Land	\$ 595,621	\$ -	\$ -	\$ 595,621
Construction in progress	40,708,575	11,374,476	(5,279,623)	46,803,428
Total capital assets, not being depreciated	41,304,196	11,374,476	(5,279,623)	47,399,049
Capital assets, being depreciated:				
Land improvements	1,516,337	-	-	1,516,337
Buildings and improvements	128,142,592	2,012,746	-	130,155,338
Right-to-use leased equipment	720,213	44,342	-	764,555
Furniture and fixtures	861,467	81,788	-	943,255
Machinery and equipment	190,053,426	12,831,004	(49,980)	202,834,450
Total capital assets, being depreciated	321,294,035	14,969,880	(49,980)	336,213,935
Less: accumulated depreciation	(138,312,983)	(6,409,701)	39,270	(144,683,414)
Total capital assets being depreciated, net	182,981,052	8,560,179	(10,710)	191,530,521
Total capital assets, net	\$ 224,285,248	\$ 19,934,655	\$ (5,290,333)	\$ 238,929,570

4. Leases

In 1997, and amended in 2021, CRW entered into a noncancelable lease with American Towers, LLC, for a parent parcel land. The lease was originally for a term of 30 years. The amendment adjusted the payments and provided the option to extend the lease for 7 additional 5 year terms. Commencing June 2021, CRW receives monthly rental payments of \$4,000 with a 3% increase each annual anniversary commencing on April 2022. During the years ended December 31, 2022 and 2021, CRW recognized \$114,049 and \$26,281 in lease revenue and \$2,918 and \$1,719 of interest revenue related to this lease, respectively.

The following represents CRW's receivable for lease payments and deferred inflows of resources associated that will be recognized as revenue over the term of the lease at December 31, 2022.

Lease Term	Lease Receivable	Deferred Inflow of Resources
6/28/21-3/28/62	\$ 3,622,517	\$ 3,551,686

The following represents CRW's receivable for lease payments and deferred inflows of resources associated that will be recognized as revenue over the term of the lease at December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

<u>Lease Term</u>	<u>Lease Receivable</u>	<u>Deferred Inflow of Resources</u>
6/28/21-3/28/62	<u>\$ 3,668,679</u>	<u>\$ 3,642,175</u>

The expected future payments to be received under the terms of the lease at December 31, 2022 are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 47,672	\$ 2,881	\$ 50,553
2024	49,227	2,842	52,069
2025	50,829	2,802	53,631
2026	52,479	2,761	55,240
2027	54,179	2,718	56,897
2028-2032	298,235	12,902	311,137
2033-2037	349,082	11,611	360,693
2038-2042	408,040	10,102	418,142
2043-2047	476,403	8,339	484,742
2048-2052	555,667	6,281	561,948
2053-2057	647,569	3,882	651,451
2058-2062	633,135	1,120	634,255
	<u>\$ 3,622,517</u>	<u>\$ 68,241</u>	<u>\$ 3,690,758</u>

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YEARS ENDED DECEMBER 31, 2022 AND 2021

During the year ended December 31, 2020, CRW entered into a lease for truck vehicles. The lease requires fixed monthly payments through December 2025. During the year ended December 31, 2021, CRW entered into a lease for a server and support. The lease requires fixed monthly payments through December 2024. The value of the right-to-use assets as of December 31, 2022 was \$764,555 and had accumulated amortization of \$332,259. At December 31, 2022, the future principal and interest lease payments required are as follows:

Years	Principal	Interest	Total
2023	\$ 156,130	\$ 10,940	\$ 167,070
2024	161,685	6,675	168,360
2025	151,119	1,996	153,115
	<u>\$ 468,934</u>	<u>\$ 19,611</u>	<u>\$ 488,545</u>

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. With the exception of services related to Green Infrastructure Projects, all shared services work was completed in December 2016.

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.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Amounts due from/to the City consist of the following at December 31, 2022:

	Water Segment	Sewer Segment	Stormwater Segment	Admin Segment
Due from City:				
Cash	\$ 368,113	\$ 279,055	\$ -	\$ -
Investments - workers' compensation	-	730,839	-	-
Miscellaneous receivables	58,735	-	115,564	(70,266)
Due from City Capital Projects Fund	90,332	-	-	-
2004 loan and duplicate transfers for payment of cash disbursements	-	563,971	-	-
Credit card receipts	7,084	3,850	-	-
Shared services	-	-	-	491,294
Disaster Grants	105,693	365,782	-	-
	\$ 629,957	\$ 1,943,497	\$ 115,564	\$ 421,028
Due to the City:				
Due to City General Fund	\$ (104,158)	\$ (165,878)	\$ -	\$ -
Debit/credit transfer balances	(1,004,351)	(8,415)	-	-
Other postemployment benefit liabilities	(110,901)	(3,152,926)	-	-
Disputed accounts	(226,672)	(108,420)	-	-
Workers' compensation reserve	-	(76,402)	-	-
Utility refunds	-	(1,667)	-	-
Shared services	-	(380,922)	-	-
	\$ (1,446,082)	\$ (3,894,630)	\$ -	\$ -

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Amounts due from/to the City consist of the following at December 31, 2021:

	Water Segment	Sewer Segment	Stormwater Segment	Admin Segment
Due from City:				
Cash	\$ 368,113	\$ 279,055	\$ -	\$ -
Investments - workers' compensation	-	730,839	-	-
Miscellaneous receivables	58,735	-	147,351	(57,827)
Due from City Capital Projects Fund	90,332	-	-	-
2004 loan and duplicate transfers for payment of cash disbursements	-	563,971	-	-
Credit card receipts	7,084	3,850	-	-
Shared services	-	-	-	491,294
Disaster Grants	105,693	365,782	-	-
	\$ 629,957	\$ 1,943,497	\$ 147,351	\$ 433,467
Due to the City:				
Due to City General Fund	\$ (104,158)	\$ (165,878)	\$ (470,408)	\$ -
Debit/credit transfer balances	(1,004,351)	(8,415)	-	-
Other postemployment benefit liabilities	(214,100)	(2,475,851)	-	-
Disputed accounts	(226,672)	(108,420)	-	-
Workers' compensation reserve	-	(76,402)	-	-
Utility refunds	-	(1,667)	-	-
Shared services	-	(380,922)	-	-
	\$ (1,549,281)	\$ (3,217,555)	\$ (470,408)	\$ -

Amounts due to the City include postemployment benefit liabilities paid by the City for water and sewer employees who retired prior to the transition agreement and an allocation of the City's future liability for such employees.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

6. 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, 2022 and 2021 follows:

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2022 Water Revenue Note	\$ 41,622,000	2027-2047	1.00%	Payment of, and reimbursement to CRW, for capital expenditures relating to CRW's Water fund. This is a drawdown loan. As of December 31, 2022 and 2021, \$105,348 and \$0, has been drawn down on this note, respectively.
2021 Sewer Revenue Note	\$ 21,000,000	2025-2045	1.00%	Payment of, and reimbursement to CRW, for capital expenditures relating to CRW's Sewer fund. This is a drawdown loan. As of December 31, 2022 and 2021, \$3,292,257 and \$0, has been drawn down on this note, respectively.
2020 Stormwater Revenue Note	\$ 13,000,000	2025-2045	1.00%	Payment of, and reimbursement to CRW, for capital expenditures relating to CRW's Stormwater fund. This is a drawdown loan. As of December 31, 2022 and 2021, \$1,878,684 and \$1,186,770, has been drawn down on this note, respectively.
2018 Water Revenue Refunding Bonds	\$ 59,320,000	2025 - 2038	5.00%	1) Currently refund the outstanding Water Revenue Bond, Series of 2008; 2) fund certain miscellaneous capital expenditures with respect to CRW's water system; 3) fund a debt service reserve fund; and 4) pay the costs of issuance of the 2018 Bonds.
2018 Sewer Revenue Note	\$ 11,136,900	2019 - 2040	1.00%	Payment of, and reimbursement to CRW, for capital expenditures relating to CRW's wastewater treatment facility and various other projects. This is a drawdown loan. As of December 31, 2022 and 2021 \$10,580,055 and \$10,201,552 has been drawn down on this note, respectively.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2017 Sewer Revenue Note	\$ 3,577,394	2018 - 2039	1.00% - 1.44%	Payment of, and reimbursement to CRW, for capital expenditures relating to CRW's wastewater treatment facility and various other projects.
2017 Sewer System Revenue Bonds	\$ 43,915,000	2018 - 2047	3.00% - 5.00%	1) Currently refund the Sewer Revenue Bonds, Series B of 2014; 2) fund certain miscellaneous capital expenditures with respect to CRW's sewer system; 3) fund a debt service reserve fund; and 4) pay the costs of issuance of the 2017 Bonds.
2016 Water Revenue Refunding Bonds Series A	\$ 49,735,000	2017 - 2029	2.00% - 5.00%	1) Currently refund the Water Revenue Refunding Bonds, Series A of 2002, Variable Rate Water Revenue Refunding Bonds, Series B of 2002, and Variable Rate Water Revenue Refunding Bonds, Series C of 2002; 2) currently refund the Water Revenue Refunding Bonds, Series of 2004; 3) advance refund a portion of the Water Revenue Refunding Bonds, Series of 2008; 4) fund a debt service reserve fund; 5) pay the costs of insuring a portion of the Water Revenue Refunding Bonds, Series A of 2016; and 6) pay the costs of issuance of the 2016 Bonds.
2015 Water System Improvement General Obligation Note	\$ 5,600,000	2017 - 2036	1.00%	Provide an enhanced geographic information system, restore reliability in the supervisory control and data acquisition system, and install a new water main and associated appurtenances.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>
2014 Sewer Revenue Note Series C	\$ 21,500,000	2014 - 2037	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 - 2029	1.27% - 2.55%	Finance capital improvements and replacements to CRW's wastewater treatment facility.

CAPITAL REGION WATER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2022:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Bonds outstanding:				
Water Revenue Bonds:				
Series of 2018	\$ 2,966,000	\$ 2,966,000	\$ 8,826,000	\$ 8,823,000
Series A of 2016	7,715,750	7,298,000	299,250	299,250
Sewer Revenue Bonds:				
Series of 2017	2,853,250	2,851,000	2,851,750	2,850,250
Total principal and interest, bonds	<u>\$ 13,535,000</u>	<u>\$ 13,115,000</u>	<u>\$ 11,977,000</u>	<u>\$ 11,972,500</u>
Less:				
Interest				
Plus:				
Unamortized premium				
Total bonds outstanding, plus premium				
Notes payable (all are direct borrowings):				
Water System Improvement General				
Obligation Note, Series of 2022	\$ 3,025	\$ 3,461	\$ 3,461	\$ 3,461
Obligation Note, Series of 2015	265,478	265,478	265,478	265,478
Sewer Revenue Notes:				
Series of 2021	32,923	32,923	126,757	1,158,934
Series of 2018	614,616	614,616	614,616	614,616
Series of 2017	193,805	196,455	200,165	200,165
Series C of 2014	1,210,158	1,210,158	1,210,158	1,210,158
Series of 2009	114,120	114,120	114,119	114,119
Stormwater Revenue Note, Series of 2020	25,863	26,842	602,336	717,435
Total principal and interest, notes	<u>\$ 2,459,988</u>	<u>\$ 2,464,053</u>	<u>\$ 3,137,090</u>	<u>\$ 4,284,366</u>
Less:				
Interest				
Total notes payable				

<u>2027</u>	<u>2028 to 2032</u>	<u>2033 to 2037</u>	<u>2038 to 2042</u>	<u>2043 to 2047</u>	<u>Total</u>
\$ 8,825,500	\$ 43,004,500	\$ 4,677,250	\$ 987,000	\$ -	\$ 81,075,250
299,250	6,583,500	-	-	-	22,495,000
<u>2,851,500</u>	<u>14,241,750</u>	<u>14,243,500</u>	<u>14,246,750</u>	<u>14,251,500</u>	<u>71,241,250</u>
<u>\$ 11,976,250</u>	<u>\$ 63,829,750</u>	<u>\$ 18,920,750</u>	<u>\$ 15,233,750</u>	<u>\$ 14,251,500</u>	174,811,500
					55,911,500
					<u>11,446,857</u>
					<u>\$ 130,346,857</u>
\$ 107,208	\$ -	\$ -	\$ -	\$ -	\$ 120,616
265,478	1,327,390	929,177	-	-	3,583,957
1,158,934	926,879	-	-	-	3,437,350
614,616	3,073,080	3,073,080	1,037,543	-	10,256,783
200,165	1,000,825	1,000,825	316,925	-	3,309,330
1,210,158	6,050,790	4,941,484	-	-	17,043,064
114,119	184,003	-	-	-	754,600
612,293	-	-	-	-	1,984,769
<u>\$ 4,282,971</u>	<u>\$ 12,562,967</u>	<u>\$ 9,944,566</u>	<u>\$ 1,354,468</u>	<u>\$ -</u>	40,490,469
					3,172,635
					<u>\$ 37,317,834</u>

CAPITAL REGION WATER
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2021:

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Bonds outstanding:				
Water Revenue Bonds:				
Series of 2018	\$ 2,966,000	\$ 2,966,000	\$ 2,966,000	\$ 8,826,000
Series A of 2016	7,712,250	7,715,750	7,298,000	299,250
Sewer Revenue Bonds:				
Series of 2017	2,848,250	2,853,250	2,851,000	2,851,750
Total principal and interest, bonds	<u>\$ 13,526,500</u>	<u>\$ 13,535,000</u>	<u>\$ 13,115,000</u>	<u>\$ 11,977,000</u>
Less:				
Interest				
Plus:				
Unamortized premium				
Total bonds outstanding, plus premium				
Notes payable (all are direct borrowings):				
Water System Improvement General Obligation Note, Series of 2015	\$ 265,478	\$ 265,478	\$ 265,478	\$ 265,478
Sewer Revenue Notes:				
Series of 2018	614,616	614,616	614,616	614,616
Series of 2017	193,805	193,805	196,455	200,165
Series C of 2014	1,208,148	1,210,158	1,210,158	1,210,158
Series of 2009	114,120	114,120	114,120	114,119
Stormwater Revenue Note, Series of 2020	11,868	11,868	11,868	599,841
Total principal and interest, notes	<u>\$ 2,408,035</u>	<u>\$ 2,410,045</u>	<u>\$ 2,412,695</u>	<u>\$ 3,004,377</u>
Less:				
Interest				
Total notes payable				

<u>2026</u>	<u>2027 to 2031</u>	<u>2032 to 2036</u>	<u>2037 to 2041</u>	<u>2042 to 2046</u>	<u>2047</u>	<u>Total</u>
\$ 8,823,000	\$ 42,708,750	\$ 12,811,750	\$ 1,973,750	\$ -	\$ -	\$ 84,041,250
299,250	6,882,750	-	-	-	-	30,207,250
<u>2,850,250</u>	<u>14,244,250</u>	<u>14,244,000</u>	<u>14,247,000</u>	<u>14,249,000</u>	<u>2,850,750</u>	<u>74,089,500</u>
<u>\$ 11,972,500</u>	<u>\$ 63,835,750</u>	<u>\$ 27,055,750</u>	<u>\$ 16,220,750</u>	<u>\$ 14,249,000</u>	<u>\$ 2,850,750</u>	<u>188,338,000</u>
						62,208,000
						<u>13,216,021</u>
						<u>\$ 139,346,021</u>
\$ 265,478	\$ 1,327,390	\$ 1,194,655	\$ -	\$ -	\$ -	\$ 3,849,435
614,616	3,073,080	3,073,080	1,270,192	-	-	10,489,432
200,165	1,000,825	1,000,825	517,090	-	-	3,503,135
1,210,158	6,050,790	6,050,790	100,852	-	-	18,251,212
114,119	298,121	-	-	-	-	868,719
599,332	-	-	-	-	-	1,234,777
<u>\$ 3,003,868</u>	<u>\$ 11,750,206</u>	<u>\$ 11,319,350</u>	<u>\$ 1,888,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>38,196,710</u>
						3,333,606
						<u>\$ 34,863,104</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CRW's outstanding bonds contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due upon the occurrence and continuance of any event of default and at the written request of not less than 25% of the registered owners. All outstanding notes and bonds contain an event of default that changes the timing of repayment of outstanding amounts to become immediately due if CRW is unable to make payment. In addition, the revenue streams for the water system, sewer system and the stormwater system are pledged as collateral for their respective bonds and notes.

Long-term liability activity for the years ended December 31, 2022 and 2021 were as follows:

	Beginning Balance at January 1, 2022	Additions	Amortization	Reductions	Ending Balance at December 31, 2022	Amounts Due Within One Year
Notes payable	\$ 34,863,104	\$ 4,468,023	\$ -	\$ (2,013,293)	\$ 37,317,834	\$ 2,035,436
Bonds payable	126,130,000	-	-	(7,230,000)	118,900,000	7,600,000
Lease payable	624,342	-	-	(155,408)	468,934	156,130
Line of Credit	2,000,000	2,876,838	-	(2,000,000)	2,876,838	-
Compensated absences	729,745	1,196,122	-	(1,126,186)	799,681	372,922
Total long-term liabilities	164,347,191	8,540,983	-	(12,524,887)	160,363,287	10,164,488
Plus:						
Unamortized premium	13,216,021	-	(1,769,164)	-	11,446,857	-
	<u>\$ 177,563,212</u>	<u>\$ 8,540,983</u>	<u>\$ (1,769,164)</u>	<u>\$ (12,524,887)</u>	<u>\$ 171,810,144</u>	<u>\$ 10,164,488</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Beginning Balance at January 1, 2021	Additions	Amortization	Reductions	Ending Balance at December 31, 2021	Amounts Due Within One Year
Notes payable	\$ 33,049,813	\$ 3,835,596	\$ -	\$ (2,022,305)	\$ 34,863,104	\$ 2,013,404
Bonds payable	133,040,000	-	-	(6,910,000)	126,130,000	7,230,000
Lease payable	720,213	52,100	-	(147,971)	624,342	151,990
Line of Credit	-	2,000,000	-	-	2,000,000	-
Compensated absences	692,812	851,550	-	(814,617)	729,745	303,852
Total long-term liabilities	167,502,838	6,739,246	-	(9,894,893)	164,347,191	9,699,246
Plus:						
Unamortized premium	15,153,327	-	(1,937,306)	-	13,216,021	-
	<u>\$ 182,656,165</u>	<u>\$ 6,739,246</u>	<u>\$ (1,937,306)</u>	<u>\$ (9,894,893)</u>	<u>\$ 177,563,212</u>	<u>\$ 9,699,246</u>

In July 2022, CRW entered into a Sewer Revenue Note with PennVest for \$65,000,000 for wastewater treatment capital improvements. As of December 31, 2022, \$0 funds have been drawn down on this note.

7. Line of Credit

In July 2020, CRW entered into two secured line of credit agreements with First National Bank of Pennsylvania. One is for the water division with a credit limit of \$5,000,000 and another is for the sewer division with a credit limit of \$5,000,000. As amended, both credit lines have a variable interest rate, with an initial rate of 2.75% subject to change based on the SOFR (secured overnight financing rate) interest period. The note requires monthly interest payments beginning July 20, 2020. The principal outstanding balance is due on the amended maturity date of October 20, 2024. The outstanding balance on Sewer's Line of Credit was \$2,876,838 and \$2,000,000 as of December 31, 2022 and 2021, respectively. The outstanding balance on Water's Line of Credit was zero as of December 31, 2022 and 2021.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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 Stormwater Segment, which started during the year ended December 31, 2020, accounts for the provision of repairing and maintaining storm drains. Selected segment information as of and for the years ended December 31, 2022 and 2021 are as follows:

CAPITAL REGION WATER

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Segment information for the year ended December 31, 2022:

CONDENSED BALANCE SHEET	Water Segment	Sewer Segment	Stormwater Segment
Assets:			
Current assets:			
Other current assets	\$ 24,911,095	\$ 13,743,479	\$ 2,995,562
Due from the City of Harrisburg	629,957	1,943,497	115,564
Due from other funds	-	718,743	-
Total current assets	<u>25,541,052</u>	<u>16,405,719</u>	<u>3,111,126</u>
Restricted assets	18,337,579	10,507,127	-
Net pension asset	526,333	740,149	62,633
Lease receivable	3,574,845	-	-
Capital assets	<u>91,659,169</u>	<u>144,113,525</u>	<u>19,483,372</u>
Total Assets	<u>139,638,978</u>	<u>171,766,520</u>	<u>22,657,131</u>
Deferred Outflows of Resources	<u>5,275,999</u>	<u>697,623</u>	<u>36,019</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 144,914,977</u>	<u>\$ 172,464,143</u>	<u>\$ 22,693,150</u>
Liabilities:			
Current liabilities:			
Other current liabilities	\$ 2,345,768	\$ 4,463,024	\$ 1,120,489
Due to the City of Harrisburg	1,446,082	2,600,682	-
Due to other funds	15,079	-	222,405
Total current liabilities	<u>3,806,929</u>	<u>7,063,706</u>	<u>1,342,894</u>
Liabilities payable from restricted assets	8,793,879	3,573,938	143,958
Due to the City of Harrisburg	-	1,293,948	-
Noncurrent liabilities	<u>82,715,572</u>	<u>77,332,200</u>	<u>2,178,833</u>
Total Liabilities	<u>95,316,380</u>	<u>89,263,792</u>	<u>3,665,685</u>
Deferred Inflows of Resources	<u>4,572,359</u>	<u>1,262,204</u>	<u>12,948</u>
Net Position:			
Net investment in capital assets	18,332,626	72,842,304	16,496,361
Restricted	3,605,894	3,020,000	-
Unrestricted	<u>23,087,718</u>	<u>6,075,843</u>	<u>2,518,156</u>
Total Net Position	<u>45,026,238</u>	<u>81,938,147</u>	<u>19,014,517</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 144,914,977</u>	<u>\$ 172,464,143</u>	<u>\$ 22,693,150</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
Operating revenues	<u>\$ 26,435,714</u>	<u>\$ 21,957,302</u>	<u>\$ 5,212,355</u>
Operating expenses:			
Operating	7,251,696	10,247,987	1,824,715
Administration	2,846,026	2,305,252	784,139
Depreciation	<u>2,985,389</u>	<u>3,164,290</u>	<u>449,480</u>
Total operating expenses	<u>13,083,111</u>	<u>15,717,529</u>	<u>3,058,334</u>
Operating Income	<u>13,352,603</u>	<u>6,239,773</u>	<u>2,154,021</u>
Non-operating revenues (expenses):			
Investment income	336,655	131,476	16,522
Gain on Sale of Asset	(2,442)	91,714	-
Grant revenue	-	-	176,184
Miscellaneous income	116,009	67,556	12,797
Lease principal and interest revenue	214,897	-	-
Interest expense	<u>(3,361,598)</u>	<u>(2,126,538)</u>	<u>(15,102)</u>
Total non-operating revenues (expenses)	<u>(2,696,479)</u>	<u>(1,835,792)</u>	<u>190,401</u>
Change in Net Position	<u>10,656,124</u>	<u>4,403,981</u>	<u>2,344,422</u>
Net position - January 1, 2022, restated	<u>34,370,114</u>	<u>77,534,166</u>	<u>16,670,095</u>
Net position - December 31, 2022	<u>\$ 45,026,238</u>	<u>\$ 81,938,147</u>	<u>\$ 19,014,517</u>

CAPITAL REGION WATER

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Stormwater Segment
Net cash provided by operating activities	\$ 16,237,734	\$ 12,657,580	\$ 1,571,239
Net cash provided by investing activities	(4,294,397)	(414,507)	16,522
Net cash used in capital and related financing activities	<u>(19,406,024)</u>	<u>(12,157,688)</u>	<u>(1,599,367)</u>
Increase (decrease) in cash and cash equivalents	(7,462,687)	85,385	(11,606)
Cash and cash equivalents, January 1, 2022	<u>26,076,215</u>	<u>13,412,446</u>	<u>2,300,933</u>
Cash and cash equivalents, December 31, 2022	<u>\$ 18,613,528</u>	<u>\$ 13,497,831</u>	<u>\$ 2,289,327</u>

CAPITAL REGION WATER

NOTES TO THE FINANCIAL STATEMENTS

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Segment information for the year ended December 31, 2021:

CONDENSED BALANCE SHEET	Water Segment	Sewer Segment	Stormwater Segment
Assets:			
Current assets:			
Other current assets	\$ 27,726,388	\$ 15,130,805	\$ 3,468,596
Due from the City of Harrisburg	629,957	1,943,497	147,351
Due from other funds	-	1,884,574	-
Total current assets	<u>28,356,345</u>	<u>18,958,876</u>	<u>3,615,947</u>
Restricted assets	18,157,497	10,281,144	-
Net pension asset	569,928	842,975	-
Lease receivable, net of current portion	3,622,517	-	-
Capital assets	<u>86,034,252</u>	<u>135,923,628</u>	<u>16,687,826</u>
Total Assets	136,740,539	166,006,623	20,303,773
Deferred Outflows of Resources	<u>5,814,252</u>	<u>440,378</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 142,554,791</u>	<u>\$ 166,447,001</u>	<u>\$ 20,303,773</u>
Liabilities:			
Current liabilities:			
Other current liabilities	\$ 2,479,595	\$ 5,370,800	\$ 318,693
Due to the City of Harrisburg	1,445,513	2,478,466	470,408
Due to other funds	<u>(132,592)</u>	<u>-</u>	<u>1,072,840</u>
Total current liabilities	<u>3,792,516</u>	<u>7,849,266</u>	<u>1,861,941</u>
Liabilities payable from restricted assets	8,613,571	3,527,214	140,505
Due to the City of Harrisburg	103,768	739,089	-
Noncurrent liabilities	<u>91,334,872</u>	<u>75,927,392</u>	<u>1,631,232</u>
Total Liabilities	<u>103,844,727</u>	<u>88,042,961</u>	<u>3,633,678</u>
Deferred Inflows of Resources	<u>4,339,950</u>	<u>869,874</u>	<u>-</u>
Net Position:			
Net investment in capital assets	4,974,408	64,960,910	14,714,984
Restricted	3,556,859	2,340,000	-
Unrestricted	<u>25,838,847</u>	<u>10,233,256</u>	<u>1,955,111</u>
Total Net Position	<u>34,370,114</u>	<u>77,534,166</u>	<u>16,670,095</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 142,554,791</u>	<u>\$ 166,447,001</u>	<u>\$ 20,303,773</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
Operating revenues	\$ 25,516,578	\$ 21,767,430	\$ 5,349,284
Operating expenses:			
Operating	6,033,550	8,352,550	1,871,731
Administration	2,581,624	2,238,708	661,215
Depreciation	<u>2,854,057</u>	<u>3,130,753</u>	<u>374,067</u>
Total operating expenses	<u>11,469,231</u>	<u>13,722,011</u>	<u>2,907,013</u>
Operating Income	<u>14,047,347</u>	<u>8,045,419</u>	<u>2,442,271</u>
Non-operating revenues (expenses):			
Investment income	49,937	21,556	1,509
Grant revenue	-	-	263,283
Miscellaneous income	514,028	259,653	20,061
Interest expense	<u>(3,518,667)</u>	<u>(2,089,322)</u>	<u>(9,653)</u>
Total non-operating revenues (expenses)	<u>(2,954,702)</u>	<u>(1,808,113)</u>	<u>275,200</u>
Change in Net Position	11,092,645	6,237,306	2,717,471
Net position - January 1, 2021	<u>23,277,469</u>	<u>71,296,860</u>	<u>13,952,624</u>
Net position - December 31, 2021	<u>\$ 34,370,114</u>	<u>\$ 77,534,166</u>	<u>\$ 16,670,095</u>

CAPITAL REGION WATER

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Stormwater Segment
Net cash provided by operating activities	\$ 16,885,845	\$ 13,834,914	\$ 3,215,010
Net cash provided by investing activities	477,379	20,982	1,509
Net cash used in capital and related financing activities	<u>(18,770,364)</u>	<u>(14,223,932)</u>	<u>(1,209,695)</u>
Increase (decrease) in cash and cash equivalents	(1,407,140)	(368,036)	2,006,824
Cash and cash equivalents, January 1, 2021	<u>27,483,355</u>	<u>13,780,482</u>	<u>294,109</u>
Cash and cash equivalents, December 31, 2021	<u>\$ 26,076,215</u>	<u>\$ 13,412,446</u>	<u>\$ 2,300,933</u>
Noncash Capital Financing and Related Financing Activities:			
Capital lease proceeds	<u>\$ 25,744</u>	<u>\$ 25,744</u>	<u>\$ -</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

9. Commitments and Contingencies

CRW is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of CRW at December 31, 2022.

CRW had guaranteed a line-of-credit on behalf of the National Civil War Museum limited to \$250,000. In November 2014, the National Civil War Museum refinanced the line-of-credit to a term loan. The term loan is also guaranteed by a second lien on the collection of artifacts. As required by the agreement, CRW has placed \$250,000 in a separate account and this amount is included on the balance sheet as restricted cash and cash equivalents. In the event the Bank utilizes CRW's deposit to pay sums due under the term loan, the National Civil War Museum agrees to reimburse CRW by monthly depositing an amount equal to one thirty-sixth of the amount drawn from the account, together with interest calculated on the unpaid balance thereof at prime rate plus one percent. The term loan had an outstanding balance of \$234,240 and \$291,780 at June 30, 2022 and 2021, respectively.

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, 2022, excluding amounts in accounts payable, was approximately \$42.8 million.

10. 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.

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. CRW believes disallowances, if any, will be immaterial.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

11. Pension Plan

Plan Description

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

Benefits Provided

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

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

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

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Death Benefit – Effective January 1, 2020, a pre-retirement death benefit will be offered to beneficiaries of all members that meet specific requirements and who suffered a service-connected death.

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 postretirement adjustments based on investment performance.

Plan Membership

Membership of the Plan consisted of the following at the most recent actuarial valuation date of January 1, 2021:

Active employees	135
Inactive employees and beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	<u>8</u>
Total	<u><u>160</u></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%. Effective January 1, 2020, all members with 37.5 years or more of vested service are not required to contribute to the plan. 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, 2021 CRW made a contribution of \$425,545 and the MMO was \$425,185. During the year ended December 31, 2022 CRW made a contribution of \$455,637 and the MMO was \$455,637. The 2022 contribution is reported as a deferred outflow of resources at December 31, 2022.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of CRW for the years ended December 31, 2022 and 2021 were as follows:

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balances at December 31, 2021 (based on the measurement date of December 31, 2019 updated with estimated changes for the year)	\$ 17,042,124	\$ 19,311,848	\$ (2,269,724)
Changes for the year:			
Service cost	1,156,780	-	1,156,780
Interest	995,378	-	995,378
Change in estimate	991,722	(339,784)	1,331,506
Contributions - employer	-	425,545	(425,545)
Contributions - employees	-	555,477	(555,477)
PMRS investment income	-	914,306	(914,306)
Market value investment income	-	1,533,634	(1,533,635)
Benefit payments	(348,281)	(348,281)	-
Administrative expense	-	(55,265)	55,265
Net changes	<u>2,795,599</u>	<u>2,685,632</u>	<u>109,966</u>
Balances at December 31, 2022 (based on the measurement date of December 31, 2021)	<u>\$ 19,837,723</u>	<u>\$ 21,997,480</u>	<u>\$ (2,159,758)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>110.9%</u>

CAPITAL REGION WATER

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YEARS ENDED DECEMBER 31, 2022 AND 2021

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2020 (based on the measurement date of December 31, 2019)	\$ 15,588,744	\$ 16,382,738	\$ (793,994)
Estimated changes for the year:			
Service cost	902,058	-	902,058
Interest	858,940	-	858,940
Contributions - employer	-	387,213	(387,213)
Contributions - employees	-	505,290	(505,290)
PMRS investment income	-	860,094	(860,094)
Market value investment income	-	1,515,403	(1,515,403)
Benefit payments	(307,618)	(307,618)	-
Administrative expense	-	(31,272)	31,272
Net changes	1,453,380	2,929,110	(1,475,730)
Balances at December 31, 2021 (based on the measurement date of December 31, 2019 updated with estimated changes for the year))	\$ 17,042,124	\$ 19,311,848	\$ (2,269,724)
Plan fiduciary net position as a percentage of the total pension liability			88.2%

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

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Actuarial Assumptions - The total pension liability was determined by an actuarial valuation performed on January 1, 2021, with liabilities rolled forward to December 31, 2021, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.25%
Projected salary increases	2.8% - 6.2%*
* includes inflation rate of 2.2%	
Cost-of-living adjustments	2.2%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2014 to December 31, 2018

Pre-retirement mortality:

Males: PUB 2010 General Employees male table

Females: PUB 2010 General Employees female table

Post-retirement mortality:

Males: RP 2006 Male Annuitant table

Females: RP 2006 Female Annuitant 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. There are three steps to the method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pmr.state.pa.us. Based on the three-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.42%. The rationale for the difference between the System’s long-term expected rate of return and the discount rate can be found at www.pmr.state.pa.us.

Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities’ total pension liability as of December 31, 2021 was 5.25%. 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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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:

<u>December 31, 2022</u>	<u>1% Decrease 4.25%</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Pension Liability (Asset)	<u>\$ 838,669</u>	<u>\$ (2,159,758)</u>	<u>\$ (4,667,351)</u>
<u>December 31, 2021</u>	<u>1% Decrease 4.25%</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Pension Liability (Asset)	<u>\$ 60,276</u>	<u>\$ (2,269,724)</u>	<u>\$ (4,243,724)</u>

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

For the years ended December 31, 2022 and 2021, CRW recognized pension expense of \$190,890 and \$(234,310), respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

At December 31, 2022, CRW reported deferred outflows of resources and deferred inflows of resources related to its pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 750,654	\$ 161,244
Changes of assumptions	565,658	26,741
CRW contributions subsequent to the measurement date	455,637	-
Net difference between projected and actual earnings on pension plan investments	-	<u>2,580,716</u>
Total	<u>\$ 1,771,949</u>	<u>\$ 2,768,701</u>

At December 31, 2021, CRW reported deferred outflows of resources and deferred inflows of resources related to its pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 347,379	\$ 214,991
Changes of assumptions	180,828	33,427
CRW contributions subsequent to the measurement date	422,065	-
Net difference between projected and actual earnings on pension plan investments	-	<u>2,073,719</u>
Total	<u>\$ 950,272</u>	<u>\$ 2,322,137</u>

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

The differences in CRW's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. CRW contributions made in 2022 and 2021 (subsequent to measurement dates) will be recorded as a reduction to the pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2022 will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2023	\$ (496,284)
2024	(802,906)
2025	(401,012)
2026	(107,068)
2027	206,338
Thereafter	<u>148,543</u>
	<u>\$ (1,452,389)</u>

12. Other Postemployment Benefit Plan

Plan Description

In addition to the pension benefits described in Note 11, CRW provides certain postemployment healthcare benefits to its employees who transferred from the City to CRW on November 4, 2013 through one single-employer, defined benefit OPEB plan. All other CRW employees are not eligible for OPEB. This OPEB plan does not issue a separate report.

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

Benefits - Medical, prescription drug, dental, vision, and life coverage are provided to the member, along with a spouse and/or eligible dependents. CRW pays the full premium for life insurance in the amount of \$5,000 for the member only. CRW pays full medical premium for single coverage for member only. The member and spouse are eligible until

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

the member reaches Medicare age. Life insurance and reimbursements for Medicare Supplement coverage will continue for the member's life.

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

2022	\$ 310
2023	320
2024	330
2025	340
2026 and later	350

Contributions

CRW's contribution is based on projected pay-as-you-go financing requirements. For the years ended December 31, 2022 and 2021, CRW contributed \$66,825 and \$72,583 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.

Plan Membership

At January 1, 2022, the latest actuarial valuation, the OPEB plan membership was as follows:

Active employees	25
Inactive employees and beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Total	<u><u>29</u></u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Changes in Total OPEB Liability

The changes in total OPEB liability of CRW for the years ended December 31, 2022 (based on the measurement date December 31, 2021) and 2021 (based on the measurement date of December 31, 2020) were as follows:

Total OPEB Liability	<u>2022</u>	<u>2021</u>
Service cost	\$ 49,817	\$ 30,837
Interest	27,090	36,291
Differences between expected and actual experience	(531,397)	-
Changes of assumptions	103,115	141,938
Benefit payments	<u>(66,825)</u>	<u>(72,583)</u>
Net changes	(418,200)	136,483
OPEB Liability at January 1	<u>1,258,181</u>	<u>1,121,698</u>
OPEB Liability at December 31	<u>\$ 839,981</u>	<u>\$ 1,258,181</u>

At December 31, 2022, CRW reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 623,634
Changes of assumptions	187,413	63,590
CRW payments subsequent to the measurement date	<u>30,772</u>	<u>-</u>
Total	<u>\$ 218,185</u>	<u>\$ 687,224</u>

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

At December 31, 2021, CRW reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 185,105
Changes of assumptions	197,921	43,926
CRW payments subsequent to the measurement date	66,382	-
Total	<u>\$ 264,303</u>	<u>\$ 229,031</u>

The differences in CRW's changes of assumptions and differences between expected and actual experience are recognized over the average expected remaining service lives of active and inactive members. CRW payments subsequent to the measurement date at December 31, 2022 will be recorded as a reduction to the OPEB liability during the year ending December 31, 2021. The amount recorded at December 31, 2021 was recognized as a reduction of the net OPEB liability for the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2022 will be recognized in OPEB expense as follows:

<u>Year ending December 31,</u>	
2023	\$ (73,647)
2024	(73,647)
2025	(73,647)
2026	(73,647)
2027	(73,647)
Thereafter	<u>(131,576)</u>
	<u>\$ (499,811)</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each 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-

CAPITAL REGION WATER

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YEARS ENDED DECEMBER 31, 2022 AND 2021

term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The total OPEB liability was determined by an actuarial valuation performed on January 1, 2022 measured at December 31, 2021 using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	2.25% - Based on the Standard & Poor's Municipal Bond 20-Year High Grade Rate Index at January 1, 2022.
Projected salary increases	5.00%
Healthcare cost trend rates	6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025. Rates gradually decrease from 5.4% in 2026 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Mortality	IRS 2017 Static Combined Mortality Table for Small Plans
Actuarial value of assets	Not applicable

Changes in Actuarial Assumptions

The interest rate changed from 3.64% in the January 1, 2018 measured at December 31, 2018 actuarial valuation to 3.26% in the January 1, 2020 measured at December 31, 2019 actuarial valuation. There was a change of benefit terms for four members who transition to nonbenefit employees and were excluded from the plan for the actuarial valuation measured at December 31, 2019. The interest rate changed from 3.26% to 1.93% in the actuarial valuation as of January 1, 2020 for December 31, 2021. The interest rate changed from 1.93% to 2.25% in the actuarial valuation as of January 1, 2022 for December 31, 2022.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Discount Rate

The discount rate used to measure the December 31, 2022 and 2021 total OPEB liability was 2.25% and 1.93%, respectively. The discount rate was based on the index rate for 20-year high grade municipal bonds rate index. Since the OPEB Plan has insufficient assets to meet projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each measurement period assumed that employer contributions will be made based on the current funding policy for future years.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of CRW calculated using the discount rate described above, as well as what the CRW's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>December 31, 2022</u>	<u>1% Decrease (1.25%)</u>	<u>Current Discount Rate (2.25%)</u>	<u>1% Increase (3.25%)</u>
Total OPEB Liability	<u>\$ 936,320</u>	<u>\$ 839,981</u>	<u>\$ 754,519</u>
<u>December 31, 2021</u>	<u>1% Decrease (0.93%)</u>	<u>Current Discount Rate (1.93%)</u>	<u>1% Increase (2.93%)</u>
Total OPEB Liability	<u>\$ 1,379,474</u>	<u>\$ 1,258,181</u>	<u>\$ 1,149,554</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of CRW calculated using the healthcare cost trend rates described above, as well as what CRW's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current rates:

<u>December 31, 2022</u>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$ 754,423</u>	<u>\$ 839,981</u>	<u>\$ 906,692</u>

<u>December 31, 2021</u>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$ 1,250,560</u>	<u>\$ 1,258,181</u>	<u>\$ 1,266,720</u>

OPEB Expense

For the years ended December 31, 2022 and 2021, CRW recognized OPEB expense of \$86,215 and \$61,215, respectively.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	2022*	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability:								
Service cost	\$ 1,156,780	\$ 926,525	\$ 865,699	\$ 830,682	\$ 764,171	\$ 654,728	\$ 613,689	\$ 334,095
Interest	995,378	850,863	780,614	691,100	635,428	603,374	542,606	401,252
Changes of assumptions	-	573,382	-	-	-	406,858	(73,543)	-
Differences between expected and actual experience	-	614,962	-	520,179	-	(483,726)	-	1,637
Transfers	-	-	-	-	(101,807)	-	-	3,135,289
Benefit payments, including refunds	(348,281)	(520,630)	(223,576)	(509,787)	(189,492)	(22,836)	(2,949)	(16,536)
Net Changes in Total Pension Liability	1,803,877	2,445,102	1,422,737	1,532,174	1,108,300	1,158,398	1,079,803	3,855,737
Total Pension Liability - Beginning	18,033,846	15,588,744	14,166,007	12,633,833	11,525,533	10,367,135	9,287,332	5,431,595
Total Pension Liability - Ending (a)	\$ 19,837,723	\$ 18,033,846	\$ 15,588,744	\$ 14,166,007	\$ 12,633,833	\$ 11,525,533	\$ 10,367,135	\$ 9,287,332
Plan Fiduciary Net Position:								
Contributions - employer	\$ 425,545	\$ 387,613	\$ 324,888	\$ 334,515	\$ 501,800	\$ 216,967	\$ 227,577	\$ 143,879
Contributions - employees	555,477	505,191	480,204	455,329	416,181	388,245	324,831	251,842
Net investment income (loss)	2,447,940	2,256,564	2,788,573	(847,765)	1,958,868	794,593	(71,180)	416,222
Transfers	-	-	-	-	(101,807)	-	-	3,135,289
Benefit payments, including refunds	(348,281)	(520,630)	(223,576)	(509,787)	(189,492)	(22,836)	(2,949)	(16,536)
Administrative expense	(55,265)	(39,412)	(30,010)	(33,124)	(30,681)	(31,035)	(24,032)	(20,178)
Net Change in Plan Fiduciary Net Position	3,025,416	2,589,326	3,340,079	(600,832)	2,554,869	1,345,934	454,247	3,910,518
Plan Fiduciary Net Position - Beginning	18,972,064	16,382,738	13,042,659	13,643,491	11,088,622	9,742,688	9,288,441	5,377,923
Plan Fiduciary Net Position - Ending (b)	\$ 21,997,480	\$ 18,972,064	\$ 16,382,738	\$ 13,042,659	\$ 13,643,491	\$ 11,088,622	\$ 9,742,688	\$ 9,288,441
Net Pension Liability (Asset) - Ending (a-b)	\$ (2,159,757)	\$ (938,218)	\$ (793,994)	\$ 1,123,348	\$ (1,009,658)	\$ 436,911	\$ 624,447	\$ (1,109)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	110.9%	105.2%	105.1%	92.1%	108.0%	96.2%	94.0%	100.0%
Covered Payroll	\$ 8,965,710	\$ 8,119,793	\$ 7,498,799	\$ 7,168,520	\$ 6,645,051	\$ 6,084,318	\$ 5,255,163	\$ 4,617,165
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-24.09%	-11.55%	-10.59%	15.67%	-15.19%	7.18%	11.88%	-0.02%

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

See accompanying notes to required supplementary information - pension plan.

CAPITAL REGION WATER
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF PENSION CONTRIBUTIONS

	<u>2022*</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution under Act 205	\$ 425,185	\$ 387,213	\$ 324,568	\$ 334,035	\$ 301,468	\$ 240,302	\$ 204,394	\$ 143,479
Contribution in relation to the actuarially determined contribution	<u>425,545</u>	<u>387,613</u>	<u>324,888</u>	<u>334,515</u>	<u>501,800</u>	<u>216,967</u>	<u>227,577</u>	<u>143,879</u>
Contribution deficiency (excess)	<u>\$ (360)</u>	<u>\$ (400)</u>	<u>\$ (320)</u>	<u>\$ (480)</u>	<u>\$ (200,332)</u>	<u>\$ 23,335</u>	<u>\$ (23,183)</u>	<u>\$ (400)</u>
Covered payroll	<u>\$ 8,965,710</u>	<u>\$ 8,119,793</u>	<u>\$ 7,498,799</u>	<u>\$ 7,165,520</u>	<u>\$ 6,645,051</u>	<u>\$ 6,084,318</u>	<u>\$ 5,255,163</u>	<u>\$ 4,617,165</u>
Contributions as a percentage of covered payroll	4.75%	4.77%	4.33%	4.67%	7.55%	3.57%	4.33%	3.12%

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

See accompanying notes to required supplementary information - pension plan.

CAPITAL REGION WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

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, 2021 are as follows:

Actuarial valuation date	1/1/2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.3%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	2.8%
Postretirement cost-of-living adjustment increase	2.2%, subject to plan limitations
Preretirement mortality:	
Males: RP 2000 Non-Annuitant Male table projected 15 years with Scale AA	
Females: RP 2000 Non-Annuitant Female table projected 15 years with Scale AA, set back 5 years	
Postretirement mortality:	
Males: RP 2000 Annuitant Male table projected 5 years with Scale AA	
Females: RP 2000 Annuitant Female table projected 10 years with Scale AA	

CAPITAL REGION WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

2. Changes in Actuarial Assumptions

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

The December 31, 2019 underlying inflation rate and cost of living adjustment decreased from 5.5% to 5.25% and 3.0% to 2.8%, respectively.

Effective with the December 31, 2020 measurement date were the following assumption changes: the experience study was updated from period covering January 1, 2009 through December 31, 2013 to January 1, 2014 through December 31, 2018; mortality tables were updated from RP 2000 to PUB-2010 for pre-retirement and RP 2006 for post-retirement; post-retirement cost of living decreased from 2.8% to 2.2%; and projected salary increases were also adjusted.

CAPITAL REGION WATER

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE OPEB PLAN'S LIABILITY

	2022*	2021	2020	2019	2018
Total OPEB Liability:					
Service cost	\$ 49,817	\$ 30,837	\$ 45,349	\$ 48,431	\$ 48,171
Interest	27,090	36,291	47,235	40,839	46,410
Changes of benefit terms	-	-	(100,324)	-	-
Differences between expected and actual experience	(531,397)	-	(149,337)	-	(108,354)
Changes of assumptions	103,115	141,938	37,387	(60,399)	67,059
Benefit payments	(66,825)	(72,583)	(23,847)	(16,570)	(6,776)
Net Changes in Total OPEB Liability	(418,200)	136,483	(143,537)	12,301	46,510
Total OPEB Liability - Beginning	1,258,181	1,121,698	1,265,235	1,252,934	1,206,424
Total OPEB Liability - Ending	<u>\$ 839,981</u>	<u>\$ 1,258,181</u>	<u>\$ 1,121,698</u>	<u>\$ 1,265,235</u>	<u>\$ 1,252,934</u>

* 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 notes to required supplementary information - OPEB plan.

CAPITAL REGION WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLAN

YEAR ENDED DECEMBER 31, 2022

1. Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedule:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	2.25% - Based on the Standard & Poor's Municipal Bond 20-Year High Grade Rate Index at January 1, 2022.
Projected salary increases	5.00%
Healthcare cost trend rates	6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025. Rates gradually decrease from 5.4% in 2026 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Mortality	IRS 2017 Static Combined Mortality Table for Small Plans
Actuarial value of assets	Not applicable

Factors and Trends Used in the Actuarial Valuation for the Other Post-employment Benefit (OPEB) Plan

Capital Region Water (CRW) has not accumulated assets for the OPEB plan. Benefits are paid on a pay-as-you-go basis.

Benefit Changes

The premium that CRW paid on behalf of the members changed in the January 1, 2020 actuarial valuation to include the full premium as determined for the purpose of COBRA.

CAPITAL REGION WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLAN

YEAR ENDED DECEMBER 31, 2022

Changes in Actuarial Assumptions

The interest rate changed from 4.50% in the January 1, 2016 actuarial valuation to 3.16% in the January 1, 2018 measured at December 31, 2017 actuarial valuation. In addition, the healthcare cost trend rates and mortality tables were updated.

The interest rate changed from 3.16% in the January 1, 2018 measured at December 31, 2017 actuarial valuation to 3.64% in the January 1, 2018 measured at December 31, 2018 actuarial valuation.

The interest rate changed from 3.64% in the January 1, 2018 measured at December 31, 2018 actuarial valuation to 3.26% in the January 1, 2020 measured at December 31, 2019 actuarial valuation.

The interest rate changed from 3.26% in the January 1, 2020 measured at December 31, 2019 actuarial valuation to 1.93% in the January 1, 2020 measured at December 31, 2021 actuarial valuation.

The interest rate changed from 1.93% in the January 1, 2020 measured at December 31, 2021 actuarial valuation to 2.25% in the January 1, 2022 measured at December 31, 2022 actuarial valuation.

SUPPLEMENTARY INFORMATION

CAPITAL REGION WATER

COMBINING BALANCE SHEET

YEAR ENDED DECEMBER 31, 2022

	Water Segment	Sewer Segment	Stormwater Segment	Working Capital Fund	Eliminations	Total
Assets and Deferred Outflows of Resources						
Assets:						
Current assets:						
Cash and cash equivalents	\$ 15,007,639	\$ 7,142,563	\$ 2,289,327	\$ 970,705	\$ -	\$ 25,410,234
Investments	4,500,000	500,000	-	-	-	5,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$4,164,957, \$2,309,607, \$990,931 and zero	4,894,725	5,765,315	691,508	35,063	-	11,386,611
Current portion of lease receivable	47,672	-	-	-	-	47,672
Due from the City of Harrisburg	629,957	1,943,497	115,564	421,028	-	3,110,046
Prepaid expenses	166,730	209,786	14,727	121,063	-	512,306
Inventory	294,329	125,815	-	-	-	420,144
Due from other funds	-	718,743	-	-	(718,743)	-
Total current assets	<u>25,541,052</u>	<u>16,405,719</u>	<u>3,111,126</u>	<u>1,547,859</u>	<u>(718,743)</u>	<u>45,887,013</u>
Restricted assets:						
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,605,889	6,355,268	-	250,000	-	10,211,157
Investments restricted under trust indentures	14,731,690	4,151,859	-	-	-	18,883,549
Total restricted assets	<u>18,337,579</u>	<u>10,507,127</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>29,094,706</u>
Noncurrent assets:						
Net pension asset	526,333	740,149	62,633	830,643	-	2,159,758
Lease receivable, net of current portion	3,574,845	-	-	-	-	3,574,845
Capital assets, not being depreciated	3,144,063	46,352,687	4,387,072	-	-	53,883,822
Capital assets, being depreciated, net of accumulated depreciation of \$67,378,393, \$82,147,794, \$1,397,835 and \$343,060	88,515,106	97,760,838	15,096,300	278,073	-	201,650,317
Total noncurrent assets	<u>95,760,347</u>	<u>144,853,674</u>	<u>19,546,005</u>	<u>1,108,716</u>	<u>-</u>	<u>261,268,742</u>
Total Assets	<u>139,638,978</u>	<u>171,766,520</u>	<u>22,657,131</u>	<u>2,906,575</u>	<u>(718,743)</u>	<u>336,250,461</u>
Deferred Outflows of Resources:						
Deferred loss on refunding	4,731,128	-	-	-	-	4,731,128
Deferred outflows of resources for other postemployment benefits	96,505	103,189	-	18,491	-	218,185
Deferred outflows of resources for pension	448,366	594,434	36,019	693,130	-	1,771,949
Total Deferred Outflows of Resources	<u>5,275,999</u>	<u>697,623</u>	<u>36,019</u>	<u>711,621</u>	<u>-</u>	<u>6,721,262</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 144,914,977</u>	<u>\$ 172,464,143</u>	<u>\$ 22,693,150</u>	<u>\$ 3,618,196</u>	<u>\$ (718,743)</u>	<u>\$ 342,971,723</u>

(Continued)

CAPITAL REGION WATER
COMBINING BALANCE SHEET
YEAR ENDED DECEMBER 31, 2022
(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Water Segment	Sewer Segment	Stormwater Segment	Working Capital Fund	Eliminations	Total
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 2,211,118	\$ 4,138,692	\$ 1,119,148	\$ 239,783	\$ -	\$ 7,708,741
Current portion of compensated absences	75,802	138,168	1,341	157,611	-	372,922
Unearned revenue	58,848	186,164	-	-	-	245,012
Due to the City of Harrisburg	1,446,082	2,600,682	-	-	-	4,046,764
Due to other funds	15,079	-	222,405	481,259	(718,743)	-
Total current liabilities	<u>3,806,929</u>	<u>7,063,706</u>	<u>1,342,894</u>	<u>878,653</u>	<u>(718,743)</u>	<u>12,373,439</u>
Liabilities payable from restricted assets:						
Accrued interest payable	1,799,761	920,448	-	-	-	2,720,209
Current portion of notes payable	233,032	1,802,404	-	-	-	2,035,436
Current portion of lease payable	6,086	6,086	143,958	-	-	156,130
Current portion of bonds payable	6,755,000	845,000	-	-	-	7,600,000
Total liabilities payable from restricted assets	<u>8,793,879</u>	<u>3,573,938</u>	<u>143,958</u>	<u>-</u>	<u>-</u>	<u>12,511,775</u>
Noncurrent liabilities:						
Compensated absences	86,744	158,115	1,535	180,365	-	426,759
Due to the City of Harrisburg	-	1,293,948	-	-	-	1,293,948
Notes payable	3,223,580	30,180,134	1,878,684	-	-	35,282,398
Lease payable	7,095	7,095	298,614	-	-	312,804
Line of Credit	-	2,876,838	-	-	-	2,876,838
Bonds outstanding, plus premiums of \$7,076,096, \$4,370,761, zero and zero	79,056,096	43,690,761	-	-	-	122,746,857
Total other postemployment benefit liability	342,057	419,257	-	78,667	-	839,981
Total noncurrent liabilities	<u>82,715,572</u>	<u>78,626,148</u>	<u>2,178,833</u>	<u>259,032</u>	<u>-</u>	<u>163,779,585</u>
Total Liabilities	<u>95,316,380</u>	<u>89,263,792</u>	<u>3,665,685</u>	<u>1,137,685</u>	<u>(718,743)</u>	<u>188,664,799</u>
Deferred Inflows of Resources:						
Deferred inflows of resources for other postemployment benefits	290,240	267,280	-	129,704	-	687,224
Deferred inflows of resources for pension	730,433	994,924	12,948	1,030,396	-	2,768,701
Lease related	3,551,686	-	-	-	-	3,551,686
Total Deferred Inflows of Resources	<u>4,572,359</u>	<u>1,262,204</u>	<u>12,948</u>	<u>1,160,100</u>	<u>-</u>	<u>7,007,611</u>
Net Position:						
Net investment in capital assets	18,332,626	72,842,304	16,496,361	278,073	-	107,949,364
Restricted:						
Guarantee agreement	-	-	-	250,000	-	250,000
Water- restricted under trust indenture requirements	3,605,894	-	-	-	-	3,605,894
Sewer- restricted under trust indenture requirements	-	3,020,000	-	-	-	3,020,000
Unrestricted	23,087,718	6,075,843	2,518,156	792,338	-	32,474,055
Total Net Position	<u>45,026,238</u>	<u>81,938,147</u>	<u>19,014,517</u>	<u>1,320,411</u>	<u>-</u>	<u>147,299,313</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 144,914,977</u>	<u>\$ 172,464,143</u>	<u>\$ 22,693,150</u>	<u>\$ 3,618,196</u>	<u>\$ (718,743)</u>	<u>\$ 342,971,723</u>

CAPITAL REGION WATER

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2022

	Water Segment	Sewer Segment	Stormwater Segment	Working Capital Fund	Eliminations	Total
Operating Revenues:						
User charges	\$ 26,435,714	\$ 21,957,302	\$ 5,212,355	\$ -	\$ (87,384)	\$ 53,517,987
Administrative fees	-	-	-	5,935,417	(5,935,417)	-
Total operating revenues	26,435,714	21,957,302	5,212,355	5,935,417	(6,022,801)	53,517,987
Operating Expenses:						
Operating	7,251,696	10,247,987	1,824,715	-	(185,314)	19,139,084
Administrative	2,846,026	2,305,252	784,139	5,989,706	(5,935,417)	5,989,706
Depreciation	2,985,389	3,164,290	449,480	57,419	-	6,656,578
Total operating expenses	13,083,111	15,717,529	3,058,334	6,047,125	(6,120,731)	31,785,368
Operating Income (Loss)	13,352,603	6,239,773	2,154,021	(111,708)	97,930	21,732,619
Non-Operating Revenues (Expenses):						
Investment income	336,655	131,476	16,522	9,304	-	493,957
Grant revenue	-	-	176,184	103,258	-	279,442
Gain/loss on sale of asset	(2,442)	91,714	-	-	-	89,272
Miscellaneous income	116,009	67,556	12,797	114,069	-	310,431
Lease principal revenue	211,979	-	-	-	(97,930)	114,049
Lease interest revenue	2,918	-	-	-	-	2,918
Interest expense	(3,361,598)	(2,126,538)	(15,102)	-	-	(5,503,238)
Total non-operating revenues (expenses)	(2,696,479)	(1,835,792)	190,401	226,631	(97,930)	(4,213,169)
Change in Net Position	10,656,124	4,403,981	2,344,422	114,923	-	17,519,450
Net Position:						
Beginning of year, restated	34,370,114	77,534,166	16,670,095	1,205,488	-	129,779,863
End of year	<u>\$ 45,026,238</u>	<u>\$ 81,938,147</u>	<u>\$ 19,014,517</u>	<u>\$ 1,320,411</u>	<u>\$ -</u>	<u>\$ 147,299,313</u>

CAPITAL REGION WATER
COMBINING SCHEDULE OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	Water Segment	Sewer Segment	Stormwater Segment	Working Capital Fund	Eliminations	Total
Cash Flows From Operating Activities:						
Receipts from customers and users	\$ 26,328,583	\$ 23,659,446	\$ 5,241,685	\$ 2,130	\$ (87,384)	\$ 55,144,460
Receipts for interfund services	-	-	-	5,472,350	(5,472,350)	-
Payments to employees	(2,589,819)	(2,406,229)	(1,255,241)	(3,798,622)	-	(10,049,911)
Payments to suppliers	(4,802,675)	(7,456,216)	(780,631)	(2,158,386)	185,314	(15,012,594)
Payments for interfund services	(2,698,355)	(1,139,421)	(1,634,574)	-	5,472,350	-
Net cash provided by (used in) operating activities	<u>16,237,734</u>	<u>12,657,580</u>	<u>1,571,239</u>	<u>(482,528)</u>	<u>97,930</u>	<u>30,081,955</u>
Cash Flows From Investing Activities:						
Sale (purchase) of investments, net	(4,631,052)	(545,983)	-	-	-	(5,177,035)
Investment income received	336,655	131,476	16,522	9,304	-	493,957
Net cash provided by investing activities	<u>(4,294,397)</u>	<u>(414,507)</u>	<u>16,522</u>	<u>9,304</u>	<u>-</u>	<u>(4,683,078)</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds from debt issuance	105,348	6,547,599	691,914	-	-	7,344,861
Acquisition and construction of capital assets	(8,722,708)	(11,824,418)	(2,782,265)	(51,628)	-	(23,381,019)
Proceeds from disposal of capital assets	(2,442)	142,110	-	-	-	139,668
Interest paid	(4,288,627)	(2,432,949)	(15,102)	-	-	(6,736,678)
Principal paid on long-term debt	(6,660,714)	(4,582,579)	-	-	-	(11,243,293)
Principal paid on lease payable	(7,451)	(7,451)	(140,506)	-	-	(155,408)
Lease principal receipts	167,652	-	-	-	(97,930)	69,722
Lease interest receipts	2,918	-	-	-	-	2,918
Intergovernmental revenue	-	-	646,592	92,933	-	739,525
Net cash used in capital and related financing activities	<u>(19,406,024)</u>	<u>(12,157,688)</u>	<u>(1,599,367)</u>	<u>41,305</u>	<u>(97,930)</u>	<u>(33,219,704)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(7,462,687)</u>	<u>85,385</u>	<u>(11,606)</u>	<u>(431,919)</u>	<u>-</u>	<u>(7,820,827)</u>
Cash and Cash Equivalents:						
Beginning of year	26,076,215	13,412,446	2,300,933	1,652,624	-	43,442,218
End of year	<u>\$ 18,613,528</u>	<u>\$ 13,497,831</u>	<u>\$ 2,289,327</u>	<u>\$ 1,220,705</u>	<u>\$ -</u>	<u>\$ 35,621,391</u>

(Continued)

CAPITAL REGION WATER
COMBINING SCHEDULE OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022
(Continued)

	Water Segment	Sewer Segment	Stormwater Segment	Working Capital Fund	Eliminations	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 13,352,603	\$ 6,239,773	\$ 2,154,021	\$ (111,708)	\$ 97,930	\$ 21,732,619
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:						
Depreciation	2,985,389	3,164,290	449,480	57,419	-	6,656,578
Amortization of deferred outflows and inflows of resources	(215,646)	(286,084)	(22,191)	(312,203)	-	(836,124)
Miscellaneous nonoperating income	116,009	67,556	12,797	114,069	-	310,431
(Increase) decrease in accounts receivable	(107,131)	1,702,144	(2,457)	2,130	-	1,594,686
(Increase) decrease in due from the City of Harrisburg	-	-	31,787	-	-	31,787
(Increase) decrease in prepaid expenses	(15,473)	48,701	(6,523)	(39,862)	-	(13,157)
(Increase) decrease in inventory	(72,310)	41,866	-	-	-	(30,444)
(Increase) decrease in net pension asset	43,595	102,826	(62,633)	26,178	-	109,966
(Increase) decrease in deferred outflows of resources for other postemployment benefits	20,497	(2,328)	-	(3,121)	-	15,048
(Increase) decrease in deferred outflows of resources for pensions	(258,455)	(355,733)	(43,319)	(415,866)	-	(1,073,373)
(Increase) decrease in due from (to) other funds	147,671	1,165,831	(850,435)	(463,067)	-	-
Increase (decrease) in accounts payable and accrued liabilities	(25,706)	(499,039)	339,042	(21,648)	-	(207,351)
Increase (decrease) in unearned revenue	-	-	-	-	-	-
Increase (decrease) in due to the City of Harrisburg	(103,199)	677,075	(470,408)	12,439	-	115,907
Increase (decrease) in compensated absences	(9,223)	(8,899)	(361)	88,419	-	69,934
Increase (decrease) in total other postemployment benefit liability	(234,231)	(179,630)	-	(4,339)	-	(418,200)
Increase (decrease) in deferred inflows of resources for other postemployment benefits						
Increase (decrease) in deferred inflows of resources for pensions	256,688	277,688	-	25,770	-	560,146
	<u>356,656</u>	<u>501,543</u>	<u>42,440</u>	<u>562,863</u>	<u>-</u>	<u>1,463,502</u>
Net cash provided by (used in) operating activities	<u>\$ 16,237,734</u>	<u>\$ 12,657,580</u>	<u>\$ 1,571,239</u>	<u>\$ (482,528)</u>	<u>\$ 97,930</u>	<u>\$ 30,081,955</u>

(Concluded)

CAPITAL REGION WATER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Project Title	Federal ALN	Grant/ Pass-Through Grantor's Number	Passed Through to Subrecipients	Expenditures
Environmental Protection Agency:				
Passed through Pennsylvania Infrastructure Investment Authority:				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	71436	\$ -	\$ 14,850
Capitalization Grants for Clean Water State Revolving Funds	66.458	72819	-	1,916,646
Capitalization Grants for Clean Water State Revolving Funds	66.458	71449	-	3,292,257
Capitalization Grants for Clean Water State Revolving Funds	66.458	75376	-	1,213,579
Subtotal 66.458			-	6,437,332
Drinking Water State Revolving Fund Cluster:				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	85222	-	398,903
Subtotal 66.468 and Drinking Water State Revolving Fund Cluster			-	398,903
Total Environmental Protection Agency			-	6,836,235
U.S. Department of Homeland Security:				
Passed through Pennsylvania Emergency Management Agency:				
Public Assistance Grants	97.036	N/A	\$ - *	\$ -
Subtotal 97.036			-	-
Total Expenditures of Federal Awards			\$ -	\$ 6,836,235

* This amount does not include receipts of \$103,258 received in 2022 for reimbursement of 2021 expenditures.

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, 2022

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (schedule) presents the expenditures of all federal awards programs of Capital Region Water (CRW) using the accrual basis of accounting. Expenditures reported on the schedule are recognized following the cost principles contained in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

2. Relationship to Basic Financial Statements

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

3. Determination of Federal Expenditures

The amount of federal expenditures for the Environmental Protection Agency loans represents the expenditures incurred under the loans during the year ended December 31, 2022. The Environmental Protection Agency requires that the current year expenditures incurred under the loans be reported on the schedule rather than the beginning balance of the loans.

CAPITAL REGION WATER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2022

4. Reconciliation of PENNVEST Draws and Expenditures

The following is a reconciliation of the draws made during the year ended December 31, 2022 to the total expenditures, as presented on the schedule for loan 71436:

Draws received during year ended December 31, 2022	\$ 378,504
Expenditures paid prior to year ended December 31, 2021, draw received subsequent to December 31, 2021	(378,504)
Expenditures paid prior to year ended December 31, 2022, draw received subsequent to December 31, 2022	<u>14,850</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 14,850</u>

The balance of the loan outstanding as of December 31, 2022 was \$9,443,016

The following is a reconciliation of the draws made during the year ended December 31, 2022 to the total expenditures, as presented on the schedule for loan 72819:

Draws received during year ended December 31, 2022	\$ 1,497,388
Retainage payable as of December 31, 2022	195,859
State funding received during year ended December 31, 2022	(141,087)
Expenditures paid prior to year ended December 31, 2021, draw received subsequent to December 31, 2021	(207,968)
Expenditures paid prior to year ended December 31, 2022, draw received subsequent to December 31, 2022	<u>572,454</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 1,916,646</u>

The balance of the loan outstanding as of December 31, 2022 was \$1,878,684.

CAPITAL REGION WATER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2022

The following is a reconciliation of the draws made during the year ended December 31, 2022 to the total expenditures, as presented on the schedule for loan 75376:

Draws received during year ended December 31, 2022	\$ -
Retainage payable as of December 31, 2022	121,358
Expenditures paid prior to year ended December 31, 2022, draw received subsequent to December 31, 2022	<u>1,092,221</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 1,213,579</u>

The balance of the loan outstanding as of December 31, 2022 was \$0.

The following is a reconciliation of the draws made during the year ended December 31, 2022 to the total expenditures, as presented on the schedule for loan 71449:

Draws received during year ended December 31, 2022	<u>\$ 3,292,257</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 3,292,257</u>

The balance of the loan outstanding as of December 31, 2022 was \$3,292,257.

The following is a reconciliation of the draws made during the year ended December 31, 2022 to the total expenditures, as presented on the schedule for loan 85222:

Draws received during year ended December 31, 2022	\$ 105,348
Retainage payable as of December 31, 2022	28,825
Expenditures paid prior to year ended December 31, 2022, draw received subsequent to December 31, 2022	<u>264,730</u>
Current year expenditures, as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 398,903</u>

The balance of the loan outstanding as of December 31, 2022 was \$105,348.

Capital Region Water

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2022

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**Members of the Board of Directors
Capital Region Water**

We have audited, in accordance with the 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, the financial statements of the business-type activities of Capital Region Water (CRW), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise CRW’s basic financial statements, and have issued our report thereon dated September 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CRW’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CRW’s internal control. Accordingly, we do not express an opinion on the effectiveness of CRW’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Members of the Board of Directors
Capital Region Water
Independent Auditor's Report on Internal
Control over Financial Reporting

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CRW's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Harrisburg, Pennsylvania
September 28, 2023

Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**Members of the Board of Directors
Capital Region Water**

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Capital Region Water’s (CRW) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on CRW’s major federal program for the year ended December 31, 2022. CRW’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, CRW complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CRW and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of CRW’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CRW's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CRW's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CRW's compliance with the requirements of the major federal program.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CRW's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CRW's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of CRW's internal control over compliance. Accordingly, no such opinion is expressed.

Capital Region Water
Independent Auditor's Report on Compliance for the Major
Program and on Internal Control over Compliance

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
September 28, 2023

CAPITAL REGION WATER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2022

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Program:

<u>ALN</u>	<u>Name of Federal Program</u>
66.458	Clean Water State Revolving Fund Cluster: Capitalization Grants for Clean Water State Revolving Funds

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? yes no

CAPITAL REGION WATER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2022

- II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

None

- III. Findings and questioned costs for federal awards.

None

CAPITAL REGION WATER

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2022

NONE