

Capital Region Water

Financial Statements and Supplementary Information

Year Ended December 31, 2013 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CAPITAL REGION WATER

YEAR ENDED DECEMBER 31, 2013

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Independent Auditor's Report

Members of the Board of Directors
Capital Region Water

We have audited the accompanying financial statements of Capital Region Water (CRW) (formerly, The Harrisburg Authority), a component unit of the City of Harrisburg, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CRW as of December 31, 2013, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 and 15, management has adopted GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" during the year ended December 31, 2013. Our opinion is not modified with respect to this matter.

Correction of an Error

As discussed in Note 15, management has changed its valuation of investment contracts to contract value rather than the market value of the underlying collateral. Our opinion is not modified with respect to this matter.

Change in Segment Activities

As discussed in Note 2, CRW sold its resource recovery segment on December 23, 2013. Additionally, the sewer segment, which was previously a financing segment, took over operations of the sewer system during November and December 2013. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CRW's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
November 13, 2014

CAPITAL REGION WATER

BALANCE SHEET

DECEMBER 31, 2013

Assets and Deferred Outflows of Resources

Assets:

Current assets:

Cash and cash equivalents	\$ 16,651,590
Investments	22,954
Accounts receivable, net of allowance for uncollectible accounts of \$8,306,921	5,823,921
Prepaid expenses	262,159
Inventory	604,535
Due from the City of Harrisburg	3,058,017

Total current assets 26,423,176

Restricted assets:

Cash and cash equivalents - restricted under trust indentures and guarantee agreement	2,850,753
Investments - restricted under trust indentures	29,063,756

Total restricted assets 31,914,509

Noncurrent assets:

Capital assets, not being depreciated	8,145,985
Capital assets, net of accumulated depreciation of \$105,926,610	94,348,660
Prepaid debt insurance costs	335,635

Total noncurrent assets 102,830,280

Total Assets 161,167,965

Deferred Outflows of Resources:

Deferred loss on refunding 11,574,705

Total Assets and Deferred Outflows of Resources

\$172,742,670

Liabilities and Net Position

Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	\$ 1,613,623
Current portion of compensated absences	93,498
Current portion of amount due to the City of Harrisburg	<u>1,859,307</u>
Total current liabilities	<u>3,566,428</u>

Liabilities payable from restricted assets:

Accrued interest payable	2,940,010
Current portion of notes payable	295,818
Current portion of bonds payable	<u>5,817,000</u>
Total liabilities payable from restricted assets	<u>9,052,828</u>

Noncurrent liabilities:

Due to the City of Harrisburg	22,185
Compensated absences	539,531
Notes payable	2,238,142
Bonds outstanding, net of discount of \$522,947	138,789,053
Unearned revenue	<u>978,232</u>
Total noncurrent liabilities	<u>142,567,143</u>
Total Liabilities	<u>155,186,399</u>

Net Position:

Net investment in capital assets	(18,150,046)
Restricted:	
Guarantee agreement	250,000
Water operations	19,813,806
Sewer operations	13,803,441
Insurer agreement	1,373,780
Unrestricted	<u>465,290</u>
Total Net Position	<u>17,556,271</u>
Total Liabilities and Net Position	<u><u>\$172,742,670</u></u>

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

CAPITAL REGION WATER
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

Operating Revenues:	
User charges	\$ 41,171,925
Administrative fees	2,661,689
Total operating revenues	43,833,614
Operating Expenses:	
Operating	24,840,962
Administrative	3,773,668
Depreciation	7,748,822
Landfill closure and post-closure care expense	956,518
Total operating expenses	37,319,970
Operating Income	6,513,644
Non-Operating Revenues (Expenses):	
Investment loss	(134,406)
Grant revenue	105,693
Lease rental income	38,890
Miscellaneous expense	(673,675)
Interest expense	(24,790,217)
Total non-operating revenues (expenses)	(25,453,715)
Change in Net Position Before Special Items	(18,940,071)
Special items	284,028,108
Change in Net Position	265,088,037
Net Position:	
Beginning of year - restated	(247,531,766)
End of year	\$ 17,556,271

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

CAPITAL REGION WATER

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013

Cash Flows From Operating Activities:

Receipts from customers and users	\$ 46,486,819
Payments to employees	(927,594)
Payments to suppliers	(21,309,911)
Payments to management agent	(2,097,260)
Net cash provided by operating activities	<u>22,152,054</u>

Cash Flows From Investing Activities:

Sales of investments, net	7,704,687
Investment income received	940,457
Payments received on direct financing leases	108,988
Net cash provided by investing activities	<u>8,754,132</u>

Cash Flows From Capital and Related Financing Activities:

Decrease in obligation to construct assets under direct financing lease	614,780
Decrease in advances to the City of Harrisburg	1,339,776
Acquisition and construction of capital assets	(5,338,680)
Interest paid	(24,189,000)
Principal paid on capital lease	(15,054,903)
Principal paid on long-term debt	(201,246,158)
Swap termination payment	(4,875,000)
Forward delivery agreement termination payment	(280,000)
Payment of landfill reserve	(3,453,827)
Proceeds from sale of resource recovery facility	121,898,000
Transfer from City of Harrisburg	128,176,904
Receipts from bond insurance and debt guarantees	11,934,465
Payments under insurance policies and reimbursement agreements	(42,956,916)
Payment to bond insurer	(235,342)
Net cash used in capital and related financing activities	<u>(33,665,901)</u>
Decrease in Cash and Cash Equivalents	(2,759,715)

Cash and Cash Equivalents:

Beginning of year	22,262,058
End of year	<u>\$ 19,502,343</u>

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities:

Operating income	\$ 6,513,644
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	7,748,822
Miscellaneous nonoperating expense	(229,754)
Decrease in accounts receivable	664,275
Decrease in deposits	350
Decrease in prepaid expenses	718,629
Increase in accounts payable	507,643
Increase in compensated absences	415,622
Decrease in due from City of Harrisburg	4,856,305
Increase in accrued landfill closure and post-closure liability	956,518
Net cash provided by operating activities	<u>\$ 22,152,054</u>

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Harrisburg Sewerage Authority (Sewerage Authority) was incorporated June 3, 1957, under the provisions of the Municipality Authorities Act of 1945. On December 1, 1987, the Sewerage Authority's Articles of Incorporation were amended to change its name to the Harrisburg Water and Sewer Authority (Water Authority). On January 30, 1990, the Water Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to The Harrisburg Authority (Authority), also broadening its purpose and extending the term of its existence. In March 2014, the Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to Capital Region Water (CRW). The purpose of CRW is, among other things, to engage in public works projects relating to the ownership and operation of the water system and wastewater treatment and conveyance systems. CRW also maintains responsibility for winding down certain administrative, contractual, and minor operating activities of the previously owned resource recovery facility. Additionally, CRW issued nonrecourse tax-exempt debt for other entities for the purpose of financing capital improvement projects. See Note 2 for changes in segment activity during the year ended December 31, 2013.

CRW is a component unit of the City of Harrisburg (City) reporting entity as of and for the year ended December 31, 2013. Criteria considered in making this determination include appointment of CRW's Board of Directors (Board), financial interdependence, and CRW's potential to provide specific financial benefits to, or impose specific financial burdens on the City. Because of the sale of the resource recovery facility and concurrent extinguishment of the related debt and because water and wastewater operations have been transferred from the City to CRW, CRW is evaluating whether it will be shown as a component unit of the City in the future.

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 lease rentals received from the City (through November 2013), 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, incinerator, and wastewater treatment and conveyance systems services, and administrative fees for conduit debt issuance. Operating expenses include the cost of sales and services, administrative expenses,

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YEAR ENDED DECEMBER 31, 2013

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 and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources net of total liabilities) is segregated into "Net investment in capital assets;" "Restricted for" various purposes; and "Unrestricted" components.

Non-recourse Debt Issues

CRW participates in a single bond issue for which it has limited liability. CRW serves as a financing conduit. Although CRW is a party to the trust indenture with the associated Trustee, the agreement is structured such that there is no recourse against CRW in the case of default. As such, the corresponding debt is not reported in CRW's balance sheet, but is disclosed in Note 9.

Cash and Cash Equivalents

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

Investments

With the exception of investment contracts, which are at contract value, CRW accounts for investments at fair value. The fair value of CRW's investments is based upon values provided by external investment managers and quoted market prices.

Restricted Assets

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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Capital Assets

Capital assets in service and construction in progress are carried at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair value, if available, or at engineers' estimated fair value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair value. Costs of studies that directly result in specific projects are capitalized. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed.

Depreciation expense for the Water Segment assets acquired prior to 1992 and for Resource Recovery Segment assets acquired prior to 1997 are calculated using a 2% annual rate. For acquisitions subsequent to these dates, 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 (including Resource Recovery Facility)	50 years
Office equipment	5-15 years
Office furnishings	15 years
Operating equipment	10-50 years
Vehicles	7 years

Debt Financing Costs

Prepaid debt insurance costs and discounts/premiums are being amortized over the respective life of each bond issue using the effective interest rate method. Losses on debt refundings (including swap termination fees) are deferred and are being amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the unamortized prepaid debt insurance costs are reported as

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

an asset, deferred losses on refundings are reported as a deferred outflow of resources, and the unamortized discounts/premiums are reported as a reduction from the outstanding bonds.

Unearned Revenue

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

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: Net investment in capital assets, restricted for various purposes, and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for various purposes consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

Restricted Resources

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

Use of Estimates

Management of CRW has made a number of estimates and assumptions relating to the reporting of assets, deferred outflows of resources, and liabilities and the disclosure of contingent liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Special Item

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

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Adoption of Accounting Principle

CRW has adopted GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* Statement No. 65 reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this Statement, reclassifications have been made on the Balance Sheet. In addition, beginning net position has been restated to eliminate bond issuance costs from assets. Bond issuance costs previously were expensed over the life of the debt. Under Statement No. 65, bond issuance costs, excluding debt insurance, are fully expensed in the year of issuance.

Pending GASB Pronouncements

In June 2012, the GASB issued Statements No. 67 and 68, *“Financial Reporting for Pension Plans”* and *“Accounting and Financial Reporting for Pension.”* In addition, in November 2013, the GASB issued Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of GASB Statement No. 67 are effective for CRW’s December 31, 2014 financial statements and GASB Statement No. 68 and 71 are effective for CRW’s December 31, 2015 financial statements.

In January 2013, GASB issued Statement No. 69, *“Government Combinations and Disposals of Government Operations.”* Statement No. 69 establishes accounting and reporting standards related to government combinations and disposals of government operations. Should this Statement affect CRW, the provisions would be effective for CRW’s December 31, 2014 financial statements.

In April 2013, GASB issued Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees.”* Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for CRW’s December 31, 2014 financial statements.

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

2. SPECIAL ITEMS

Resource Recovery Segment

On December 23, 2013, CRW sold its resource recovery facility for \$129.898 million, which after taking into account \$8 million released under the Indenture netted \$121.898 million.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

These proceeds, along with funds transferred from the City, cash on hand, and contributions from the bond insurer were used to pay the costs associated with the sale, termination fees associated with the resource recovery segment derivative financial instruments, and the outstanding debt of the facility. This transaction resulted in a gain on the extinguishment of debt of approximately \$56.5 million and a gain on the sale of the facility of approximately \$16.5 million, which are both presented as special items. In accordance with an agreement with the bond insurer, any proceeds remaining, after all reasonable expenses are paid out of the resource recovery segment, will be paid to the bond insurer.

Sewer Segment

During November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations of the sewer segment (wastewater collection and conveyance systems) to CRW. As such, all assets, net of liabilities, were transferred to CRW, in the net amount of \$49 million, and are presented as a special item. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from the City, as appropriate. The City is currently disputing approximately \$1.2 million of the assets reported as due to CRW. However, CRW believes it has a valid claim to such assets and, as such, has not reported an allowance on the receivable from the City.

Administrative

As further discussed in Note 5, CRW had entered an agreement with the Harrisburg Parking Authority, where the Harrisburg Parking Authority was to assist in the development and operation of the parking facilities at the National Civil War Museum. In conjunction with the Harrisburg Parking Authority entering into the Asset Transfer Agreement for the City of Harrisburg Parking System on December 23, 2013, the Harrisburg Parking Authority forfeited those rights without additional compensation and rights were terminated.

3. DEPOSITS AND INVESTMENTS

Deposits

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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

The deposits of CRW at December 31, 2013 were as follows:

Cash and cash equivalents:	
Unrestricted	\$ 16,651,590
Restricted under trust indentures and guarantee agreement	<u>2,850,753</u>
	<u>\$ 19,502,343</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. CRW does not have a deposit policy for custodial credit risk. As of December 31, 2013, CRW’s book balance was \$19,502,343 and the bank balance was \$19,667,346. Of the bank balance, \$523,837 was covered by federal depository insurance and \$19,143,509 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Investments

The investments of CRW at December 31, 2013 were as follows:

Unrestricted:	
Money market funds	\$ 22,954
Restricted:	
Money market funds	12,394,914
U.S. Government agency obligations	2,812,842
Investment contracts	<u>13,856,000</u>
Total	<u>\$ 29,086,710</u>

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. CRW does not have a formal

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

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

	Fair (Contract) Value	% of Total
Federal Home Loan Mortgage Corporation	\$ 1,878,987	6.46%
Investment contracts - Bank of America	13,856,000	47.64%

Credit Risk – CRW does not have a formal policy that would limit its investment choices with regard to credit risk. CRW's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2013:

	Fair (Contract) Value	Rating
Money market funds	\$ 12,417,868	AAA
U.S. Government agency obligations	2,812,842	AA+
Investment contracts	13,856,000	Unrated

Interest Rate Risk – CRW does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of CRW's money market and fixed income investments and their related average maturities:

	Fair (Contract) Value	Investment Maturity (in Years)			
		Less than 1	1-5	6-10	Greater than 10
Money market funds	\$ 12,417,868	\$ 12,417,868	\$ -	\$ -	\$ -
U.S. Government agency obligations	2,812,842	2,812,842	-	-	-
Investment contracts	13,856,000	-	-	-	13,856,000
Total	\$ 29,086,710	\$ 15,230,710	\$ -	\$ -	\$ 13,856,000

As further described in Note 2, CRW had several derivative instruments that were accounted for as investments, but were terminated as a result of the sale of the resource recovery facility.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

4. CAPITAL ASSETS

Capital assets for the year ended December 31, 2013 are as follows:

	<u>Balance at January 1, 2013</u>	<u>Additions/ Transfers In</u>	<u>Retirements/ Transfers Out</u>	<u>Balance at December 31, 2013</u>
Capital assets, not being depreciated:				
Artifacts	\$ 351,865	\$ -	\$ (351,865)	\$ -
Land	-	361,421	-	361,421
Construction in progress	<u>338,092</u>	<u>7,446,472</u>	<u>-</u>	<u>7,784,564</u>
Total capital assets, not being depreciated	<u>689,957</u>	<u>7,807,893</u>	<u>(351,865)</u>	<u>8,145,985</u>
Capital assets, being depreciated:				
Land improvements	2,847,743	320,213	(1,670,351)	1,497,605
Buildings and improvements	130,683,105	34,708,562	(97,850,550)	67,541,117
Furniture and fixtures	663,695	158,236	(458,152)	363,779
Machinery and equipment	<u>115,318,939</u>	<u>63,739,318</u>	<u>(48,185,488)</u>	<u>130,872,769</u>
Total capital assets, being depreciated	<u>249,513,482</u>	<u>98,926,329</u>	<u>(148,164,541)</u>	<u>200,275,270</u>
Less: accumulated depreciation	<u>(80,262,268)</u>	<u>(67,949,111)</u>	<u>42,284,769</u>	<u>(105,926,610)</u>
Total capital assets being depreciated, net	<u>169,251,214</u>	<u>30,977,218</u>	<u>(105,879,772)</u>	<u>94,348,660</u>
Total capital assets, net	<u>\$ 169,941,171</u>	<u>\$ 38,785,111</u>	<u>\$(106,231,637)</u>	<u>\$ 102,494,645</u>

5. UNEARNED REVENUE

Development and Service Agreement

During October 2000, CRW was designated as the developer of certain parking facilities located at the National Civil War Museum. In order to fulfill the requirements as designated developer, CRW entered into an agreement with the Harrisburg Parking Authority. Under this agreement, the Harrisburg Parking Authority was to act as the sole and exclusive manager and operator of such parking facilities, including management and oversight of the day-to-day operations of the parking facility through October 2024. In consideration for its appointment and designation as manager and operator of the parking facilities, the Harrisburg Parking Authority agreed to pay \$2,850,000 to CRW. On December 23, 2013, the Harrisburg Parking Authority entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement). In conjunction with entering into the Agreement, the Harrisburg Parking Authority and CRW entered into a termination of the Reservoir Park Parking Facilities Operating Agreement, which forfeited these rights without additional compensation. Revenue from this agreement was being recognized by CRW ratably over the life of the agreement. As a result of the forfeited rights, CRW recognized the remaining unearned revenue of \$1,395,312 during the year ended December 31, 2013 as a special item.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Debt Service Forward Delivery Agreements

CRW had entered into five derivative product agreements, which consist of debt service forward delivery agreements with a financial intermediary that result in a forward swap of interest earned on amounts placed in the debt service sinking fund. Four of the five agreements were terminated as a result of the sale of the resource recovery facility, as described in Note 2. With respect to the remaining agreement, in exchange for a cash payment to CRW at the inception of the agreements totaling approximately \$1.765 million, the financial intermediary has the right, under the debt service forward delivery agreement, to invest the funds on hand in the sinking fund and retain the investment earnings. The amount received was recorded as unearned revenue in CRW's financial statements because the substance of this agreement effectively is to pay CRW currently for interest that normally would be earned in later years. The unearned revenue resulting from this transaction of \$978,232 at December 31, 2013 is being amortized over the life of the agreement under a method that approximates the interest method.

CAPITAL REGION WATER
NOTES TO FINANCIAL STATEMENTS
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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, 2013 follows:

	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>	<u>Guaranteed by the City of Harrisburg</u>
2009 Guaranteed Sewer Revenue Note	\$ 1,880,000	2011 - 2031	1.27% - 2.55%	Finance capital improvements and replacements to the Authority's wastewater treatment facility	Yes
2008 Water Revenue Bonds	69,420,000	2024 - 2031	4.88% - 5.25%	Currently refund the outstanding balance of the Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003 and fund a swap termination payment	No
2004 Water Revenue Bonds	37,455,000	2005 - 2023	1.5% - 5.0%	Currently refund the Authority's outstanding Water Revenue Refunding Bonds, Series A-1, A-2, and A-3 of 1994 and payment of 2004 swap termination payment	No
2002 Water Revenue Bonds:					
Series A	15,340,000	2023, 2024, 2029	5.00%	Advance refund 1999 Series A Water Revenue Bonds, purchase 1999 Series B Water Revenue Refunding Bonds, current refund debt service on the 1994 Bonds due and payable in 2002	No
Series B	23,035,000	2011 - 2017	variable	Purchase 1999 Series C Water Revenue Refunding Bonds	No
Series C	7,700,000	2013 - 2019	variable	Fund the 2002 Debt Service Reserve Fund Account	No
2001 Water Revenue Bonds:					
Series A	7,400,000	2002 - 2015	3.40% - 5.75%	Capital additions to the water system; completion of the water meter project	No
1998 Guaranteed Sewer Revenue Notes:					
Series A	1,893,000	1999 - 2018	variable	Finance projects related to the sewage collection system	Yes
Series B	1,864,000	1999 - 2017	1.536% - 3.071%	Finance projects related to the sewage collection system	Yes

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Derivative Financial Instruments - 2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swaps – CRW’s asset/liability strategy was to have a combination of fixed and variable-rate debt. On December 30, 2003, CRW issued its \$96,480,000 Guaranteed Resource Recovery Facility Revenue Bonds, Series D of 2003 (2003 Resource Recovery Bonds, Series D) consisting of \$31,480,000 Subseries D-1 (2003 D-1 Bonds) and \$65,000,000 Subseries D-2 (2003 D-2 Bonds). The 2003 D-1 Bonds initially bore interest at a fixed rate of 4.00% to December 1, 2008, and the 2003 D-2 Bonds at a 5.00% fixed rate to December 1, 2013. After the expiration of these respective initial rate periods, the 2003 D-1 and D-2 Bonds were subject to conversion to different interest rates for different interest rate periods. On December 1, 2008, CRW remarketed and converted \$31,280,000 Guaranteed Resource Recovery Facility Revenue Bonds, Subseries D-1 of 2003, to a long-term rate period of December 1, 2008 to December 1, 2010 with a coupon rate of 6.75%. On December 1, 2010, the Subseries D-1 of 2003 Bonds were remarketed to a fixed rate of 5.25% through December 1, 2013. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate at the time of their issuance in 2003, CRW entered into fixed-to-floating interest rate swaps, thereby achieving a variable rate while eliminating the need for a liquidity facility and annual remarketing services, and avoiding basis risk associated with the weekly remarketing of its variable rate debt, had it issued the 2003 D-1 Bonds and 2003 D-2 Bonds as weekly floating rate bonds.

Terms – With respect to its 2003 Resource Recovery Bonds, Series D, CRW entered into an interest rate swap agreement with Royal Bank of Canada (RBC), which swap agreement consisted of two components: (i) a swap with the outstanding principal amount of the 2003 D-1 Bonds to December 1, 2008 as the notional amount (D-1 Swap) and (ii) a swap with the outstanding principal amount of the 2003 D-2 Bonds to December 1, 2013 as the notional amount (D-2 Swap). Under the D-1 Swap, which terminated on December 1, 2008, CRW paid RBC floating amounts calculated by applying a floating rate per annum determined by reference to the SIFMA Index, and CRW received fixed amounts calculated by applying a fixed rate of 2.66% per annum on the notional amount under the D-1 Swap. Under the D-2 Swap, which was scheduled to terminate on December 1, 2013, CRW was to pay interest on the notional amount under the D-2 Swap at a floating rate determined by reference to the SIFMA Index, and to receive interest on such notional amount at a rate of 3.37% per annum.

The D-2 Swap contained an embedded cap, capping at 12% the floating rate to be paid by CRW to June 1, 2006, and providing a 6% cap from June 1, 2006 to December 1, 2013, the termination date of the D-2 Swap. CRW also entered into an interest rate cap agreement (D-1/D-2 Cap) with RBC, which was to become effective on December 1, 2008. The D-1/D-2 Cap provided that RBC would pay the excess, if any, between the SIFMA Index and 6% on a notional amount equal to the scheduled principal amount of the D-1 Bonds and the D-2 Bonds outstanding after December 1, 2008 and December 1, 2013, respectively. In May

CAPITAL REGION WATER

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2004, CRW and RBC amended the D-1/D-2 Cap to provide for RBC to pay the excess between 68% of LIBOR and 6%, rather than the excess between SIFMA and 6%. CRW received \$1,106,000 as a result of this amendment.

Pursuant to the agreements, CRW pays to or receives from the counterparty a net swap payment. For the year ended December 31, 2013, CRW received \$1,830,025 with respect to the D-2 Swap and the embedded D-2 Cap. For the year ended December 31, 2013, CRW paid \$284,616 for the D-1/D-2 Cap.

The D-2 Swap and the D-2 Cap expired by their terms on December 1, 2013. On December 23, 2013, CRW paid \$4.875 million to terminate the D-1/D-2 Cap.

Changes in fair value for the year ended December 31, 2013 of (\$1,150,904) are recorded as a component of investment income (loss) on the Statement of Revenues, Expenses, and Changes in Net Position.

2002 Water Revenue Bonds, Series B

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2013.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2013.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2013.

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NOTES TO THE FINANCIAL STATEMENTS
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The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2013:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Bonds outstanding:				
Water Revenue Bonds:				
Series of 2008	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300
Series of 2004	1,960,900	1,960,200	1,964,000	2,177,400
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (A)	4,414,755	4,248,943	4,083,813	3,914,443
Series C of 2002 (A)	1,435,073	1,384,055	1,333,456	1,282,017
Series A of 2001	741,425	1,501,500	-	-
Total principal and interest, bonds	<u>\$ 12,874,453</u>	<u>\$ 13,416,998</u>	<u>\$ 11,703,569</u>	<u>\$ 11,696,160</u>
Less:				
Interest				
Unamortized discount				
Total bonds outstanding, net of discount				
Notes payable:				
Guaranteed Sewer Revenue Notes:				
Series of 2009	\$ 104,168	\$ 104,168	\$ 105,607	\$ 105,608
Series A and B of 1998 (A)	235,391	240,247	245,895	238,443
Total principal and interest, notes	<u>\$ 339,559</u>	<u>\$ 344,415</u>	<u>\$ 351,502</u>	<u>\$ 344,051</u>
Less:				
Interest				
Total notes payable				

(A) - Uses variable rate in effect at December 31, 2013 as disclosed on page 17.

<u>2018</u>	<u>2019 to 2023</u>	<u>2024 to 2028</u>	<u>2029 to 2031</u>	<u>Total</u>
\$ 3,555,300	\$ 17,776,500	\$ 51,289,950	\$ 37,191,000	\$124,033,950
7,092,000	34,633,750	-	-	49,788,250
767,000	10,380,000	8,026,750	1,585,500	23,827,250
-	-	-	-	16,661,954
1,230,998	600,362	-	-	7,265,961
-	-	-	-	2,242,925
<u>\$ 12,645,298</u>	<u>\$ 63,390,612</u>	<u>\$ 59,316,700</u>	<u>\$ 38,776,500</u>	223,820,290
				78,691,290
				522,947
				<u>\$144,606,053</u>
\$ 105,607	\$ 528,036	\$ 528,039	\$ 211,215	\$ 1,792,448
161,951	-	-	-	1,121,927
<u>\$ 267,558</u>	<u>\$ 528,036</u>	<u>\$ 528,039</u>	<u>\$ 211,215</u>	2,914,375
				380,415
				<u>\$ 2,533,960</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Long-term liability activity for the year ended December 31, 2013 was as follows:

	Beginning Balance at January 1, 2013	Additions	Amortization	Reductions	Ending Balance at December 31, 2013	Amounts Due Within One Year
Loans payable	\$ 19,823,500	\$ -	\$ -	\$ (19,823,500)	\$ -	\$ -
Notes payable	68,573,924	95,907	-	(66,135,871)	2,533,960	295,818
Bonds payable	297,275,000	-	-	(152,146,000)	145,129,000	5,817,000
Compensated absences	-	687,106	-	(54,077)	633,029	93,498
Total loans, notes, and bonds payable	385,672,424	783,013	-	(238,159,448)	148,295,989	6,206,316
Less:						
Unamortized premium (discount)	5,910,998	-	(614,430)	(5,819,515)	(522,947)	-
	<u>\$ 391,583,422</u>	<u>\$ 783,013</u>	<u>\$ (614,430)</u>	<u>\$ (243,978,963)</u>	<u>\$ 147,773,042</u>	<u>\$ 6,206,316</u>

During 2007, CRW entered into a First Amendment and Management and Professional Services Agreement with a waste management facility operator (operator). As part of that agreement, the operator agreed to advance the costs incurred in the retrofit completion up to \$25,500,000. At December 31, 2013, CRW had drawn down \$20,461,000. This loan constituted subordinate debt of CRW pursuant to the provisions of CRW's various debt indentures. No interest accrued until July 1, 2011, at which time simple interest began to accrue at the rate of 4% per annum until July 1, 2012 and at a rate of 8% per annum thereafter. Interest was payable beginning October 1, 2011 and continuing thereafter in quarterly installments due and payable on the first day of each calendar quarter. Principal was to be paid beginning on July 1, 2009 in quarterly installments due and payable on the first day of each calendar quarter based on a 10-year, mortgage-style amortization schedule. This loan was guaranteed by the City. As discussed in Note 2, on December 23, 2013, CRW sold its resource recovery facility and negotiated a settlement with the operator to satisfy the claim for \$9.5 million. The settlement resulted in a gain of \$13.9 million, which is reflected as a special item.

On July 11, 2012, CRW's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 were purchased by Dexia Credit Local (Dexia), the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. CRW's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 have been subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 thereafter until July 15, 2017 and bear interest at Dexia's prime rate, plus 1%.

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On July 11, 2012, CRW's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 were purchased by Dexia, the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. CRW's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 have been subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 thereafter until July 15, 2019 and bear interest at Dexia's prime rate, plus 1%.

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

Defeased Debt

CRW has, from time to time, defeased certain debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. The trust account assets and the liability of the defeased debt are not included in CRW's financial statements. At December 31, 2013, the following defeased debt was outstanding:

Seventh Street Office & Parking Revenue Bonds, Series A of 1998	\$ 7,855,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Bonds, Series A of 1998	8,520,000
Resource Recovery Bonds, Series B of 1998	5,100,000
Resource Recovery Bonds, Series C of 1998	2,280,000
Resource Recovery Notes, Series B of 2000	540,000
Total outstanding defeased debt	<u>\$ 30,480,000</u>

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7. CAPITAL LEASE

On December 31, 2003, CRW entered into the Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor of the Resource Recovery Retrofit. The original contractor granted CRW a license to utilize the Combustion Technology at the Facility. The Sub-License Agreement was to continue in effect until the date on which the Combustion Technology is no longer used at the Facility.

To raise the funds necessary to complete the project, the original contractor sold its Technology License to CIT - Newcourt Capital for \$25 million. In turn, CRW and the original contractor entered into a First Amended and Restated Nonexclusive Technology Sublicensing Agreement and Technology Purchase Agreement (Amended Purchase Agreement) granting continued right to CRW to make full use of the Combustion Technology for all intended purposes under the Equipment Agreement, and for no other purpose; provided, that CRW could expand or increase the number of units at the Facility without the consent of the Licensor and without payment of any additional fees. This Amended Purchase Agreement has since been assigned to CIT.

Under the sublicense, CRW was to pay to CIT the following fees:

Base Fee - For each calendar quarter ending prior to January 1, 2026, CRW was to pay to Licensor/Seller, on or prior to the first business day of the immediately following calendar quarter (base fee) an amount equal to:

- For calendar quarters ending March 31, 2006 and June 30, 2006, \$500,000;
- For each calendar quarter thereafter prior to the calendar quarter during which the \$25 million is repaid, \$750,000; and
- For each calendar quarter following the calendar quarter during which the \$25 million has been repaid occurs and prior to the calendar quarter in which the Purchase Date occurs, \$.50 per ton of waste processed through each Combustion Unit during the applicable calendar quarter.

Supplemental Fee - For each calendar year ending on or after December 31, 2006 and prior to the repayment of the \$25 million, CRW was to pay to CIT, an amount equal to 95% of the excess revenues (defined as funds available after the payment of facility expenses defined as actual expenses incurred by CRW in the operation, maintenance, and ownership of the Facility: such expenses to include all operating and debt service expenses and mandated governmental fees and costs, and payments required to be made from the revenue fund into the following trust funds: the debt service fund, the debt service reserve fund, the operating reserve fund, the renewal and replacement fund, and any other specified funds into which mandatory deposits or transfers are required under

CAPITAL REGION WATER

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the terms of the existing authority indenture documents, but excluding the surplus fund and the redemption fund and disregarding amounts paid into and disbursed out of the purchase and remarketing fund).

During the year ended December 31, 2006, CRW paid the base fee of \$2.5 million to CIT under the Amended Purchase Agreement. There were no supplemental fees due for the year ended December 31, 2006. As discussed in Note 2, on December 23, 2013, CRW sold its resource recovery facility and negotiated a settlement with CIT to satisfy the claim for \$21.5 million. The settlement resulted in a gain of \$1.4 million, which is reflected as a special item.

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. Through November 4, 2013, the Sewer Segment accounted for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. As discussed in Note 2, during November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations and the remaining assets (net of applicable liabilities) of the Sewer Segment (wastewater collection and conveyance systems) to CRW. Therefore, from the date of transition through December 31, 2013, the Sewer Segment accounts for the provision of wastewater conveyance and treatment to customers of the Harrisburg Wastewater System. Through December 23, 2013, the Resource Recovery Segment accounted for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (resource recovery facility), which converted waste into energy. On December 23, 2013, CRW sold its resource recovery facility. Selected segment information as of and for the year ended December 31, 2013 is as follows:

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CONDENSED BALANCE SHEET	Water Segment	Sewer Segment	Resource Recovery Segment
Assets:			
Current assets:			
Other current assets	\$ 7,669,369	\$ 11,832,394	\$ 2,718,695
Due from (to) other funds	714,287	141,723	(466,830)
Due from the City of Harrisburg	336,268	2,669,381	-
Total current assets	8,719,924	14,643,498	2,251,865
Restricted assets	31,628,568	35,941	-
Capital assets	62,162,665	40,263,829	-
Other noncurrent assets	335,635	-	-
Total Assets	102,846,792	54,943,268	2,251,865
Deferred Outflow of Resources	11,574,705	-	-
Total Assets and Deferred Outflow of Resources	<u>\$ 114,421,497</u>	<u>\$ 54,943,268</u>	<u>\$ 2,251,865</u>
Liabilities:			
Current liabilities:			
Other current liabilities	\$ 565,796	\$ 320,454	\$ 569,380
Due to the City of Harrisburg	1,222,121	328,481	308,705
Total current liabilities	1,787,917	648,935	878,085
Liabilities payable from restricted assets	8,757,010	295,818	-
Noncurrent liabilities	140,024,586	2,429,264	-
Due to the City of Harrisburg	22,185	-	-
Total Liabilities	150,591,698	3,374,017	878,085
Net Position:			
Net investment in capital assets	(55,984,007)	37,765,810	-
Restricted	2,564,812	-	1,373,780
Unrestricted	17,248,994	13,803,441	-
Total Net Position	(36,170,201)	51,569,251	1,373,780
Total Liabilities and Net Position	<u>\$ 114,421,497</u>	<u>\$ 54,943,268</u>	<u>\$ 2,251,865</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION			
Operating revenues	\$ 15,784,831	\$ 2,588,677	\$ 23,605,052
Operating expenses:			
Operating	3,608,823	1,203,762	20,984,895
Administration	676,555	807,263	318,868
Depreciation	2,106,198	321,104	5,320,887
Total operating expenses	6,391,576	2,332,129	26,624,650
Operating Income	9,393,255	256,548	(3,019,598)
Non-operating revenues (expenses):			
Investment income	891,316	19,149	(1,052,186)
Grant revenue	105,693	-	-
Lease rental income	-	38,890	-
Miscellaneous income (expense)	(272,322)	114,444	(264,198)
Interest expense	(8,654,823)	(46,132)	(16,089,262)
Total non-operating revenues (expenses)	(7,930,136)	126,351	(17,405,646)
Change in Net Position Before Special Items and Transfers	1,463,119	382,899	(20,425,244)
Transfers in (out)	-	(1,043,840)	1,853,712
Special items	-	48,964,097	233,668,699
Change in Net Position	1,463,119	48,303,156	215,097,167
Net position - January 1, 2013 - restated	(37,633,320)	3,266,095	(213,723,387)
Net position - December 31, 2013	<u>\$ (36,170,201)</u>	<u>\$ 51,569,251</u>	<u>\$ 1,373,780</u>

CAPITAL REGION WATER
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<u>CONDENSED STATEMENT OF CASH FLOWS</u>	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>
Net cash provided by operating activities	\$ 12,328,285	\$ 5,146,231	\$ 4,500,827
Net cash provided by (used in) noncapital financing activities	-	133,170	(133,170)
Net cash provided by investing activities	1,665,393	341,376	6,740,048
Net cash provided by (used in) capital and related financing activities	<u>(15,541,829)</u>	<u>95,917</u>	<u>(18,098,837)</u>
Increase (decrease) in cash and cash equivalents	(1,548,151)	5,716,694	(6,991,132)
Cash and cash equivalents, January 1, 2013	<u>8,993,268</u>	<u>3,310,965</u>	<u>8,627,984</u>
Cash and cash equivalents, December 31, 2013	<u>\$ 7,445,117</u>	<u>\$ 9,027,659</u>	<u>\$ 1,636,852</u>

At December 31, 2013, CRW has a net position deficit in the Water segment, primarily because CRW has extended the length of its debt service at various times and the costs associated with those extensions exceeding the depreciation expense on the Water System. Management anticipates that the deficit will be reduced through future profitability improvements.

9. NON-RECOURSE DEBT ISSUES

As discussed in Note 1, the following non-recourse debt issue was outstanding at December 31, 2013:

Harrisburg University, Series B of 2007	<u>\$ 60,225,000</u>
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CAPITAL REGION WATER

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Harrisburg University

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

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

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

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

During the year ending December 31, 2011 and through September 2014, the University has reported that it has been unable to make the required loan payments and, in some cases, has utilized the County guaranty to pay the required loan payments. The draw on the Guaranty does not constitute an event of default under the Indenture, the Loan Agreement, the Guaranty, the Credit Support Agreement, or any of the other finance documents relative to the Bonds. Under the Credit Support Agreement, in the event that any funds paid by the

CAPITAL REGION WATER

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

During the year ended December 31, 2012 and through September 2014, in its multiple Notices of Default, the Trustee asserted that the failure to make the required loan payments constituted an event of default under the Loan Agreement and under the Indenture.

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

10. DUE TO/FROM THE CITY OF HARRISBURG

CRW had previously entered into a management agreement with the City to operate CRW's Water System. The Water System's management agreement was terminated effective November 2013. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from the City, as appropriate. The management agreement required that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by CRW and the inclusion of such budgeted operating expenses in CRW's annual budget. CRW incurred \$2,216,105 in expenses under the Water System management agreement in 2013. Additionally, as discussed in Note 2, wastewater operations and the remaining assets (net of applicable liabilities) of the Sewer Segment were transferred to CRW during November and December 2013. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from the City, as appropriate. CRW has annually agreed to adopt Water and Sewer rates sufficient to pay the operating expense budget as approved, as well as administrative and debt service expenses.

At December 31, 2013, \$336,268 and \$1,244,306 is included in the amount due from and due to the City, respectively, for the Water Segment; \$2,669,381 and \$328,481 is included in the amount due from and due to the City, respectively, for the Sewer Segment; \$308,705 is due to the City for the Resource Recovery Segment; and \$52,368 is due from the City to CRW for shared services.

On behalf of CRW, the City entered into a capital lease for an energy resource management project and turbine equipment at the water treatment plant as well as various equipment purchases for the water treatment plant. For financial reporting purposes, minimum lease payments have been capitalized. The property acquired through the capital lease has a cost

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

and a net book value of \$730,855 and zero, respectively, as of December 31, 2013. The leases expire from March 2013 through December 2017. Amortization on the leased equipment is included in depreciation expense.

The future minimum lease payments under the capital lease are included in the amount due to the City. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2013 are as follows:

2014	\$	74,183
2015		9,243
2016		7,395
2017		5,547
Total minimum lease payments	\$	<u>96,368</u>

The following represents the amounts due from (due to) the City at December 31, 2013:

Resource Recovery segment:		
Overpayment	\$	(308,705)
Water segment:		
Net City balance sheet items		140,769
Grant revenue		105,693
Utilities		(1,147,938)
Excess lease payments		89,806
Water capital lease:		
Current portion		(74,183)
Long-term portion		(22,185)
Sewer segment:		
Net City balance sheet items		1,570,092
Items transferred through transition agreement		562,115
Grant revenue		365,782
Utilities		(42,961)
4th Street sinkhole		(114,128)
Administration:		
Shared services agreement		52,368
Due from the City of Harrisburg	\$	<u>1,176,525</u>

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

11. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations required CRW to properly close and place a final impermeable cover on its Ash Residue Disposal Landfills when they no longer accept waste and to perform certain ongoing maintenance and monitoring activities at the site for up to thirty years after closure. The original estimated total cost of closure and post-closure care costs was \$1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and was subject to change with inflation, deflation, technology, or applicable laws and regulations. During 2007, under the original closure and post-closure agreement, CRW was required by state regulations and its permit to make quarterly payments of \$30,014 to the Consolidated Closure Trust.

On December 31, 2007, the original consolidated trust was terminated and a new account was established. At that time, CRW estimated the closure and post-closure costs to be \$1,442,617. A variable rate promissory note (Line of Credit) was entered into with a financial institution for \$1,442,617. The Line of Credit supports the Letter of Credit #1805 issued to the Pennsylvania Department of Environmental Protection. On May 5, 2008, this Line of Credit was amended to \$2,355,713 based on a revised closure and post-closure cost estimate.

In an effort to extend the life of the landfill, in April 2008, CRW began mining the ash to recover ferrous and nonferrous metals contained in the ash residue. Beginning in August 2008, the ash from the processed metal was removed from the landfill and taken offsite. This resulted in reduced ash volume thereby further extending the life of the landfill area. To maintain continued ash disposal operations, a plan was prepared to extend the site life of the landfill until an expansion could be permitted and constructed. It was expected to take four years to complete the permitting and initial construction process. During that four-year period, mining and off-site disposal of processed ash continued. During 2009, CRW received a landfill permit extension for another four years. The capacity was to last that long, if CRW continued to remove ash from the landfill for disposal/beneficial use at another landfill, as fast as it is generated at the Harrisburg Resource Recovery Facility.

As discussed in Note 2, the resource recovery facility was sold on December 23, 2013. CRW had accrued \$2,994,086 for landfill closure and post-closure care costs at the time of the sale, which represents the use of 86.69% of the estimated capacity of the disposal area. Under the new closure and post-closure agreement, CRW was required by state regulations and its permit to make quarterly payments of \$170,000 to the Consolidated Closure Trust until fully funded. As part of the sale of the resource recovery facility, the Consolidated Closure Trust was transferred to the purchaser.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

12. COMMITMENTS AND CONTINGENCIES

Many of CRW's financings are insured by a bond insurance policy. On February 13, 2013, CRW issued a notice of material event with the Electronic Market Access System (EMMA) established by the Municipal Rulemaking Board, with respect to Moody's January 17, 2013 downgrade of the insurance financial strength rating of Assured Guaranty Municipal Corporation (AGM) from A2 to Aa3. On May 14, 2014, CRW issued a notice of material event with EMMA with respect to Standard & Poor's published research update report dated March 18, 2014, in which it upgraded AGM's financial strength rating to AA from AA-.

Resource Recovery Segment

If the facility failed to generate sufficient revenues to pay debt service on the Resource Recovery Facility Revenue Bonds, Series A, D, E, and F of 2003, the Resource Recovery Facility Revenue Notes, Series B and C of 2003, the Resource Recovery Facility Subordinate Variable Rate Revenue Notes, Series A of 2002, or the Resource Recovery Facility Revenue Bonds, Series A of 1998, or ceased revenue generating operations, or if other monies set aside for such purposes were insufficient, the City was required to pay principal of and interest on such bonds and notes when due pursuant to respective Guaranty Agreements among the City, CRW, and the respective Trustees for the bonds and notes. The County of Dauphin (County) had provided a secondary guarantee of the Resource Recovery Facility Revenue Bonds, Series D and E of 2003 collectively in the maximum aggregate principal amount not to exceed \$113,000,000 by entering into a County Bond Guaranty Agreement with CRW and the Trustee for such bonds. The Resource Recovery Segment had incurred substantial accumulated losses, which caused the Segment to experience cash flow difficulties.

Through the date of sale, there were deficiencies in the Debt Service Reserve Accounts, which were to be repaid in not more than 12 substantially equal monthly payments on the first day of the month after the occurrence of such deficiency. CRW had not replenished the Debt Service Reserve Accounts through the date of the sale.

CRW had issued multiple notices of material events with the EMMA, all with respect to its inability to make required debt service payments, including draws on debt service reserve funds, under guaranty agreements, and insurance policies with respect to CRW's 1998 Series A, B, and C, Series A Notes of 2002, Series A, B, and C Bonds of 2003, Series D-1, D-2, E, and F Bonds of 2003, and Series C and D Notes of 2007, from 2009 through 2013. These draws were necessary for CRW to make debt service payments under the respective bond issues.

Additionally, the County made payments from 2009 through 2011 under the County Guaranty with respect to the Series D-1 and D-2 Cap agreement and the Series D-1 and D-2

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Swap agreement. Beginning in October 2010, the County began making monthly deposits into the Series D, E and F Debt Service Reserve Funds. These deposits have been used to make subsequent Swap/Cap payments.

The City made payments in the amount of \$637,500 during July 2009, October 2009, and January 2010 under the guaranty with respect to construction loan from Covanta. As discussed in Note 2, on December 23, 2013, CRW sold its resource recovery facility and negotiated a settlement with Covanta to satisfy the claim for \$9.5 million.

Other

During the years ended December 31, 2011 and 2012, CRW conducted a forensic audit of the debt financings related to the Resource Recovery Facility. CRW and other parties are evaluating the results of the forensic audit and any related outcome is subject to significant uncertainty.

Water Segment

On January 18, 2011, CRW issued a notice of material event with EMMA with respect to the Moody's Investor Service (Moody's) downgrade to Ba1 from A1 of CRW's 2008 Water Revenue Bonds. In addition, Moody's has removed CRW's 2008 Water Revenue Bonds from watchlist and a negative outlook has been assigned. On November 15, 2011, Moody's downgraded to Ba3 with negative outlook from Ba1 the rating on CRW's 2008 Water Revenue Bonds and then withdrew the rating. Accordingly, CRW's 2008 Water Revenue Bonds are no longer rated by Moody's.

Sewer

The United States Environmental Protection Agency (EPA) and Commonwealth of Pennsylvania Department of Environmental Protection have asserted that CRW and the City may be in violation of certain environmental laws, including the federal Clean Water Act and the Pennsylvania Clean Streams Law. The alleged violations, among other things, occurred when CRW owned and the City operated the combined sewer overflow structures and related operations (collectively, the sewer system). Although the ownership and operation of the sewer system have now been combined under CRW, as a result of such alleged past violations, CRW, along with the City, may be liable for penalties and/or obligated to undertake improvements to the sewer system. At this time, it is not possible to ascertain the costs associated with any such improvements, the scope, if any, of penalties and the breakdown of responsibility for any required improvements between CRW and the City.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Other

CRW is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of CRW at December 31, 2013.

A legal services firm has filed a writ of summons against both the City and CRW and is believed to involve a claim for legal fees in a lawsuit over the appointment power to the Board of CRW which was resolved in 2009. No formal demand has been made of CRW and the legal services firm has not pursued its claim aside from the writ of summons. CRW would defend this case vigorously and denies owing this legal service firm any amount for legal fees. Further, the statute of limitations on this claim is believed to have passed.

CRW has guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of-credit is \$500,000. As required by the agreement, CRW has placed \$250,000 in a separate account and this amount is included on the Balance Sheet as restricted cash and cash equivalents.

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, 2013, excluding amounts in accounts payable, was approximately \$3.2 million.

CRW and the City both approved a Shared Services Agreement whereby the City agrees to continue to provide certain services to CRW related to the Water and Sewer utilities and CRW agrees to continue provide certain services to the City related to the City Sanitation fund, the billing of which is combined with the water and sewer billings. The payment of for the services is based on cost of services and certain aspects of the services are cancellable, when no longer needed by the party receiving the service(s).

CRW and Lancaster County Solid Waste Management Authority (LCSWMA) have entered into an effluent reuse system agreement, which provides for CRW to complete the remaining portion of the effluent reuse system and, once complete, for LCSWMA to purchase treated effluent from CRW sewer treatment facility for cooling purposes at LCSWMA newly purchased resource recovery facility. The agreement provides a cost savings to LCSWMA due to the less expensive effluent charge compared to potable water. The agreement has a 20-year term and rate based fee provisions (gallons multiplied by the fee rate).

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

13. 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. CRW also required the City to carry commercial insurance as part of the management agreement for the Water System. During the last three years, insurance settlements did not exceed insurance coverage.

14. 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. CRW's pension plan is a single-employer 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.

The plan has been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested 10 years.

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.

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

Based on an actuarial calculation, PMRS transferred approximately \$1.96 million in cash and investments from the City's pension plan to CRW's plan as of December 31, 2013. During 2014, an additional \$6.55 million was transferred. At December 31, 2013, the funded status of the plan was not available.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Funding Policy and Contributions

All full-time employees are required to contribute five percent of their annual covered salary to the System. CRW's contributions to the System are governed by Act 205, Municipal Pension Plan Funding Standard and Recovery Act, which mandates minimum actuarial funding based upon the System's biennial actuarial valuation.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

Annual Pension Cost

For the year ended December 31, 2013, CRW's annual pension cost was \$0 which was equal to the CRW's required and actual contribution. The net pension obligation at December 31, 2013 was \$0.

15. RESTATEMENT

As discussed in Note 1, CRW adopted GASB Statement No. 65 during the year ended December 31, 2013. As a result of adopting Statement No. 65, certain bond issuance costs have been eliminated from assets.

Net position was also restated to reflect CRW's investment contracts at contract value rather than the market value of the underlying collateral. Had the investments been properly recorded, the change in net position for CRW would have been (\$21.0) million for the year ended December 31, 2012, \$837 thousand less than originally reported.

The following summarizes restatements made to beginning net position:

Net position, originally stated	\$ (238,747,466)
Implementation of GASB 65	(7,150,336)
Restatement for investment valuation	<u>(1,633,964)</u>
Net position, restated	<u><u>\$ (247,531,766)</u></u>

16. SUBSEQUENT EVENTS

Subsequent events with respect to material event notices with EMMA and debt related items are included in the respective notes.

CAPITAL REGION WATER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

In April 2011, CRW applied for a PennVest loan, in the amount not to exceed \$5.7 million for the purpose of financing CRW's water system improvements. As of the date of this report, this loan has not settled.

In March 2014, CRW paid off the Guaranteed Sewer Revenue Note, Series A of 1998.

In March 2014, CRW issued Wastewater System Revenue Note, Series of 2014A (Series of 2014A Note), with a maximum principal amount outstanding at any time of \$2 million. The Series of 2014A Note was issued to serve as a revolving line of credit for the payment of and reimbursement to CRW for certain capital expenditures related to the engineering, design, and construction of the advanced wastewater treatment facility.

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

In order to provide addition funds to complete the advanced wastewater treatment facility project, CRW issued a Sewer Revenue Note, Series of 2014C (Series of 2014C Note) in the amount of \$21,500,000. The Series of 2014C Note is interest only for 3 years and amortizes over a period of 10 years. Interest is fixed at 1% for years one through five and 1.275% thereafter.

CRW entered into various construction and professional services contracts in 2014 related to the construction of the various facilities. The commitment under these contracts is approximately \$41 million.

Supplementary Information

CAPITAL REGION WATER
COMBINING BALANCE SHEET
DECEMBER 31, 2013

Assets and Deferred Outflows of Resources	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>	<u>Working Capital Fund</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,880,305	\$ 8,991,718	\$ 1,636,852	\$ 1,142,715	\$ 16,651,590
Investments	-	-	22,954	-	22,954
Accounts receivable, net of allowance for uncollectible accounts of \$1,672,927, \$6,633,994, zero, and zero	2,680,232	2,082,814	1,058,889	1,986	5,823,921
Prepaid expenses	108,832	153,327	-	-	262,159
Inventory	-	604,535	-	-	604,535
Due from the City of Harrisburg	336,268	2,669,381	-	52,368	3,058,017
Due from (to) other funds	714,287	141,723	(466,830)	(389,180)	-
Total current assets	8,719,924	14,643,498	2,251,865	807,889	26,423,176
Restricted assets:					
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	2,564,812	35,941	-	250,000	2,850,753
Investments - restricted under trust indentures	29,063,756	-	-	-	29,063,756
Total restricted assets	31,628,568	35,941	-	250,000	31,914,509
Noncurrent assets:					
Capital assets, not being depreciated	3,124,323	5,021,662	-	-	8,145,985
Capital assets, being depreciated, net of accumulated depreciation of \$45,523,754, \$60,402,223, zero, and \$633	59,038,342	35,242,167	-	68,151	94,348,660
Prepaid debt insurance costs	335,635	-	-	-	335,635
Total noncurrent assets	62,498,300	40,263,829	-	68,151	102,830,280
Total Assets	102,846,792	54,943,268	2,251,865	1,126,040	161,167,965
Deferred Outflows of Resources:					
Deferred loss on refunding	11,574,705	-	-	-	11,574,705
Total Assets and Deferred Outflows of Resources	\$ 114,421,497	\$ 54,943,268	\$ 2,251,865	\$ 1,126,040	\$ 172,742,670

(Continued)

CAPITAL REGION WATER

COMBINING BALANCE SHEET

DECEMBER 31, 2013
(Continued)

Liabilities and Net Position	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 515,169	\$ 284,032	\$ 569,380	\$ 245,042	\$ 1,613,623
Current portion of compensated absences	50,627	36,422	-	6,449	93,498
Current portion of amount due to the City of Harrisburg	1,222,121	328,481	308,705	-	1,859,307
Total current liabilities	1,787,917	648,935	878,085	251,491	3,566,428
Liabilities payable from restricted assets:					
Accrued interest payable	2,940,010	-	-	-	2,940,010
Current portion of notes payable	-	295,818	-	-	295,818
Current portion of bonds payable	5,817,000	-	-	-	5,817,000
Total liabilities payable from restricted assets	8,757,010	295,818	-	-	9,052,828
Noncurrent liabilities:					
Due to the City of Harrisburg	22,185	-	-	-	22,185
Compensated absences	257,301	191,122	-	91,108	539,531
Notes payable	-	2,238,142	-	-	2,238,142
Bonds outstanding, net of discount of \$522,947, zero, zero, and zero	138,789,053	-	-	-	138,789,053
Unearned revenue	978,232	-	-	-	978,232
Total noncurrent liabilities	140,046,771	2,429,264	-	91,108	142,567,143
Total Liabilities	150,591,698	3,374,017	878,085	342,599	155,186,399
Net Position:					
Net investment in capital assets	(55,984,007)	37,765,810	-	68,151	(18,150,046)
Restricted					
Guarantee agreement	-	-	-	250,000	250,000
Water operations	2,564,812	-	-	-	2,564,812
Insurer agreement	-	-	1,373,780	-	1,373,780
Unrestricted					
	17,248,994	13,803,441	-	465,290	31,517,725
Total Net Position	(36,170,201)	51,569,251	1,373,780	783,441	17,556,271
Total Liabilities and Net Position	\$ 114,421,497	\$ 54,943,268	\$ 2,251,865	\$ 1,126,040	\$ 172,742,670

(Concluded)

CAPITAL REGION WATER
COMBINING SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
Operating Revenues:					
User charges	\$ 15,784,831	\$ 1,782,042	\$ 23,605,052	\$ -	\$ 41,171,925
Administrative fees	-	806,635	-	1,855,054	2,661,689
Total operating revenues	15,784,831	2,588,677	23,605,052	1,855,054	43,833,614
Operating Expenses:					
Operating	3,608,823	1,203,762	20,028,377	-	24,840,962
Administrative	676,555	807,263	318,868	1,970,982	3,773,668
Depreciation	2,106,198	321,104	5,320,887	633	7,748,822
Landfill closure and post-closure care expense	-	-	956,518	-	956,518
Total operating expenses	6,391,576	2,332,129	26,624,650	1,971,615	37,319,970
Operating Income (Loss)	9,393,255	256,548	(3,019,598)	(116,561)	6,513,644
Non-Operating Revenues (Expenses):					
Investment income (loss)	891,316	19,149	(1,052,186)	7,315	(134,406)
Grant revenue	105,693	-	-	-	105,693
Lease rental income	-	38,890	-	-	38,890
Miscellaneous income (expense)	(272,322)	114,444	(264,198)	(251,599)	(673,675)
Interest expense	(8,654,823)	(46,132)	(16,089,262)	-	(24,790,217)
Total non-operating revenues (expenses)	(7,930,136)	126,351	(17,405,646)	(244,284)	(25,453,715)
Change in Net Position Before Transfers and Special Items	1,463,119	382,899	(20,425,244)	(360,845)	(18,940,071)
Transfers in (out)	-	(1,043,840)	1,853,712	(809,872)	-
Special items	-	48,964,097	233,668,699	1,395,312	284,028,108
Change in Net Position	1,463,119	48,303,156	215,097,167	224,595	265,088,037
Net Position:					
Beginning of year - restated	(37,633,320)	3,266,095	(213,723,387)	558,846	(247,531,766)
End of year	\$ (36,170,201)	\$ 51,569,251	\$ 1,373,780	\$ 783,441	\$ 17,556,271

CAPITAL REGION WATER
COMBINING SCHEDULE OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 16,120,053	\$ 6,546,263	\$ 23,668,034	\$ 152,469	\$ 46,486,819
Receipts for interfund services	-	-	-	1,653,913	1,653,913
Payments to employees	(211,439)	(142,207)	-	(573,948)	(927,594)
Payments to suppliers	(1,003,797)	(540,349)	(18,710,042)	(1,055,723)	(21,309,911)
Payments to management agent	(2,097,260)	-	-	-	(2,097,260)
Payments for interfund services	(479,272)	(717,476)	(457,165)	-	(1,653,913)
Net cash provided by operating activities	<u>12,328,285</u>	<u>5,146,231</u>	<u>4,500,827</u>	<u>176,711</u>	<u>22,152,054</u>
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	-	133,170	(133,170)	-	-
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>133,170</u>	<u>(133,170)</u>	<u>-</u>	<u>-</u>
Cash Flows From Investing Activities:					
Sales of investments, net	793,078	213,239	6,698,370	-	7,704,687
Investment income received	872,315	19,149	41,678	7,315	940,457
Payments received on direct financing leases	-	108,988	-	-	108,988
Net cash provided by investing activities	<u>1,665,393</u>	<u>341,376</u>	<u>6,740,048</u>	<u>7,315</u>	<u>8,754,132</u>
Cash Flows from Capital and Related Financing Activities:					
Decrease in obligation to construct assets under direct financing lease	-	614,780	-	-	614,780
Decrease in advances to the City of Harrisburg	-	185,751	1,206,393	(52,368)	1,339,776
Acquisition and construction of capital assets	(3,072,386)	(242,611)	(1,954,899)	(68,784)	(5,338,680)
Interest paid	(7,303,540)	(46,132)	(16,839,328)	-	(24,189,000)
Principal paid on capital lease	(54,903)	-	(15,000,000)	-	(15,054,903)
Principal paid on long-term debt	(5,111,000)	(415,871)	(195,719,287)	-	(201,246,158)
Swap termination payment	-	-	(4,875,000)	-	(4,875,000)
Forward delivery agreement termination payment	-	-	(280,000)	-	(280,000)
Payment of landfill reserve	-	-	(3,453,827)	-	(3,453,827)
Proceeds from sale of resource recovery facility	-	-	121,898,000	-	121,898,000
Transfer from City of Harrisburg	-	-	128,176,904	-	128,176,904
Receipts from bond insurance and debt guarantees	-	-	11,934,465	-	11,934,465
Payments under insurance policies and reimbursement agreements	-	-	(42,956,916)	-	(42,956,916)
Payment to bond insurer	-	-	(235,342)	-	(235,342)
Net cash provided by (used in) capital and related financing activities	<u>(15,541,829)</u>	<u>95,917</u>	<u>(18,098,837)</u>	<u>(121,152)</u>	<u>(33,665,901)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(1,548,151)</u>	<u>5,716,694</u>	<u>(6,991,132)</u>	<u>62,874</u>	<u>(2,759,715)</u>
Cash and Cash Equivalents:					
Beginning of year	8,993,268	3,310,965	8,627,984	1,329,841	22,262,058
End of year	<u>\$ 7,445,117</u>	<u>\$ 9,027,659</u>	<u>\$ 1,636,852</u>	<u>\$ 1,392,715</u>	<u>\$ 19,502,343</u>

(Continued)

CAPITAL REGION WATER
COMBINING SCHEDULE OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013
(Continued)

	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>	<u>Working Capital Fund</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ 9,393,255	\$ 256,548	\$ (3,019,598)	\$ (116,561)	\$ 6,513,644
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation	2,106,198	321,104	5,320,887	633	7,748,822
Miscellaneous nonoperating income (expense)	(223,519)	171	(106,672)	100,266	(229,754)
(Increase) decrease in accounts receivable	335,222	266,236	62,982	(165)	664,275
Decrease in deposits	-	-	350	-	350
(Increase) decrease in prepaid expenses	(108,832)	(153,327)	980,788	-	718,629
(Increase) decrease in due from (to) other funds	197,283	89,787	(138,297)	(148,773)	-
(Increase) decrease in due from City of Harrisburg	(95,287)	3,957,415	880,049	-	4,742,177
Increase (decrease) in accounts payable	416,037	284,032	(436,180)	243,754	507,643
Increase in compensated absences	307,928	10,137	-	97,557	415,622
Increase in due to City of Harrisburg	-	114,128	-	-	114,128
Increase in accrued landfill closure and post-closure care liability	-	-	956,518	-	956,518
Net cash provided by operating activities	<u>\$ 12,328,285</u>	<u>\$ 5,146,231</u>	<u>\$ 4,500,827</u>	<u>\$ 176,711</u>	<u>\$ 22,152,054</u>

(Concluded)