



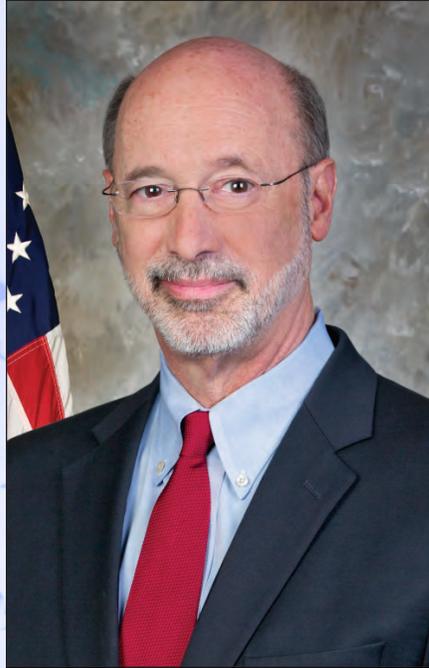
PENNVEST

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

PENNSYLVANIA
INFRASTRUCTURE
INVESTMENT
AUTHORITY
2016 - 2017
ANNUAL REPORT

Table of Contents

| | |
|----|--|
| 1 | STATEMENT FROM THE CHAIR |
| 2 | BOARD OF DIRECTORS AND STAFF |
| 3 | FISCAL YEAR 2016 - 2017 PROGRAM HIGHLIGHTS |
| 3 | PROGRAMMATIC ACCOMPLISHMENTS |
| 8 | BENEFITS CREATED BY PENNVEST FUNDING |
| 12 | ADMINISTRATIVE IMPROVEMENTS |
| 12 | STAFF PROFESSIONAL ACTIVITIES |
| 13 | PROJECTS FUNDED: 1988 – 2017 (by county) |
| 15 | INDEPENDENT AUDITORS' REPORT |



Tom Wolf, Governor

Statement from the Chair



Eric Menzer, Chair

On behalf of Governor Wolf, I am pleased to report to the citizens of the Commonwealth on the success of the PENNVEST program for the 2016-2017 Fiscal Year.

Pennsylvania faces many infrastructure challenges. PENNVEST has helped meet them by providing \$256.8 million for fifty-six (56) drinking water, wastewater and non-point source projects across the Commonwealth. In addition to providing traditional funding, the Board responded to the need to develop alternative methods of supporting clean water in Pennsylvania. PENNVEST is taking advantage of some funding capacity to back the development of a long term sustainable funding source to provide necessary revenues for future mixed use forested buffers that will filter pollutants before entering waterways. We are also the first in the nation to approve revolving loan fund investments in the development and re-introduction of native mussel species into the waterways of the Commonwealth, in yet another effort to provide for the long term sustainable program to reduce nutrients that make it into the streams and rivers.

In January 2017, the Board approved two applications for federal funding. Specifically, the PENNVEST Board of Directors approved the transfer of \$3 million in grant dollars – one million dollars per year over the next three years - to the Department of Conservation and Natural Resources to support the development of a business plan for generating revenue from mixed-use forested buffers. These buffers are part of the overall effort to reduce nutrients and sediment into the waterways of the Commonwealth. The money will be used to develop, and monitor mixed use forested buffers, and document the uses that can be used to generate sufficient revenues to provide sustainable funding sources available to pay for installation of additional forested buffers for future generations.

In April 2017, the Board approved funding in the form of an investment for the Partnership for the Delaware Estuary – Mussels for Clean Water. PENNVEST approved up to \$7,934,000 as available to fund the construction of a freshwater mussel hatchery, along with associated seed and mussel bed facilities, to grow mussels that will be sold for habitat restoration and similar purposes in both the Susquehanna and Delaware watersheds. The environmental goal of this endeavor is to remove nutrients, primarily nitrogen from the watersheds in order to improve water quality in the associated streams, rivers as well as both the Delaware Estuary and the Chesapeake Bay. PENNVEST staff and the State Treasurer have reviewed the business case and back up materials to support projected rate of return over the expected useful life of the hatchery. Funds on hand from the Clean Water State Revolving Loan Fund will be used for this investment.

This spring also saw an expansion of our Homeowner Assistance Program that we administer in concert with the Pennsylvania Housing Finance Agency to include not only the malfunctioning on-lot repair or replacement, now the costs associated with first time connection to an existing public system are eligible, and we have processed the first of these requests, and expect many homeowners to take advantage of this opportunity.

This past year the PENNVEST staff guided twenty-five wastewater, fourteen drinking water and five non-point source pollution prevention projects through the settlement process, in order to allow them to draw down the funding for these important projects. This represents \$354 million in infrastructure projects that have begun implementation within this time frame due to funding approved by the PENNVEST Board of Directors.

Finally, June 2017 ushered in the end of that stellar career of service to the Commonwealth with the retirement of long term agency Executive Director Dr. Paul Marchetti. Paul had been at the helm of the agency since the inception in 1988, and responsible for much of the innovation and success that PENNVEST has been able to establish over the last 29 years. We wish him the same future success as he enjoys his well-deserved retirement.

These initiatives, innovative features, and opportunities to grow the program beyond conventional bricks and mortar solutions, serve to improve and develop the scope of the PENNVEST efforts as we look forward to continued support of the revolving nature of the fund, keep financing available to all sectors of the Commonwealth, and promote the availability of potable drinking water, and clean water in our streams and rivers for the benefit of all of our citizens.

Board of Directors and Staff



Eric Menzer
Chair



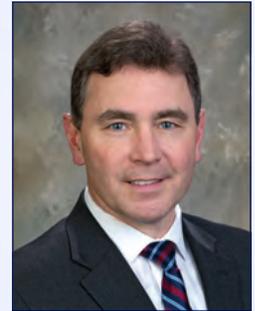
Randy Albright
Secretary of the Budget



M. Joel Bolstein
Water and Sewer Industry



Lisa Boscola
Senate of Pennsylvania



Dennis Davin
Secretary-Treasurer/
Secretary of Community
and Economic Development



Anthony DeLuca
Pennsylvania
House of Representatives



Donald Genusso
Engineering Community



Patrick McDonnell
Vice Chair/Secretary of
Environmental Protection



Tim Moury
Local Government



Donna Oberlander
Pennsylvania
House of Representatives



Curt Topper
Secretary of General
Services



Donald C. White
Senate of Pennsylvania



Pictured left to right
 FIRST ROW: Leeann Brown, Rebecca Kennedy, Earl Goldsborough, Loren Blickstein, Lou Buffington, Michelle Seltzer
 SECOND ROW: Shawn Weis, Heather Myers, Kyle Mooney, Bev Reinhold, Cherie Stiffler, Denise Zern, Dawn Bigham
 THIRD ROW: Paul Marchetti, Mike Chiarkas, Rob Boos, Mike Schaffner, Ellen Dunlap, Heather Brookmyer, Tess Schlupp, Jayne Blake
 FOURTH ROW: Dave Henning, Bob Gill, Patrick Crowell, Brion Johnson, Steve Anspach, Rod Glass, Dan Mikesic
 NOT PICTURED: John Moore, Laura Lewis, Missy Smith

Fiscal Year 2016 - 2017 Program Highlights

Programmatic Accomplishments

During fiscal year 2016-2017, PENNVEST continued its clean water project funding as well as its nutrient credit trading program. As to the latter, PENNVEST worked with the Department of Environmental Protection and its credit auction administrator, Markit Inc., to conduct one forward and one spot auction during the fiscal year. The dates and summary results of these auctions were as follows:

Forward Auctions:

September 7, 2016

- Nitrogen: 10,564 credits sold for \$2.50 per credit

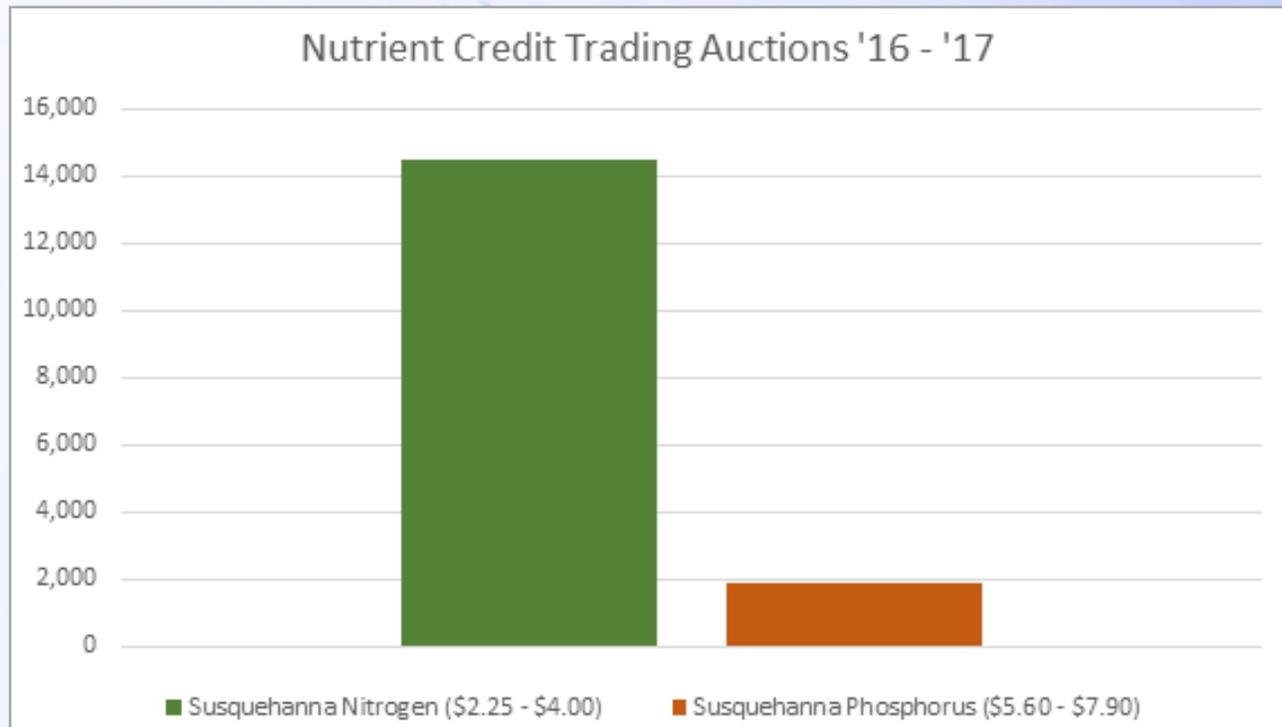
June 7, 2017

- Nitrogen: 3,100 credits sold for \$2.25 per credit
- Nitrogen: 1,200 credits sold for \$2.66 per credit
- Phosphorus: 1,200 credits sold for \$7.90 per credit

Spot Auction:

November 2, 2016

- Phosphorus: 700 credits sold for \$5.60 per credit



PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNVEST's normal project funding activities, for the fiscal year as a whole, taking all funding sources

into account, a total of 56 projects were provided with \$256.8 million in financing. Of this total, \$180.1 million

was in the form of low interest loans while \$76.7 million was in the form of grants. These projects were as follows:

| Board Meeting Date / Project Name | County | Loan | Grant | Project Type |
|--|--------------|-----------------|-----------------|--------------|
| JULY 20, 2016 | | | | |
| Christ F. King | Lancaster | \$372,945.00 | \$0.00 | NPS-PNIO |
| Aaron Glick | Lancaster | \$162,520.00 | \$0.00 | NPS-PNIO |
| Mark & Melanie Bachman | Potter | \$0.00 | \$182,129.00 | NPS-PNIO |
| Greene Township, Erie County | Erie | \$5,996,394.00 | \$4,909,041.00 | S-M |
| Biglerville Borough Authority | Adams | \$1,100,000.00 | \$0.00 | S-MA |
| Howe Township Municipal Authority | Perry | \$2,587,180.00 | \$2,952,820.00 | S-MA |
| Petersburg Borough Sewer Authority | Huntingdon | \$2,043,844.00 | \$1,456,156.00 | S-MA |
| Bangor Borough Authority | Northampton | \$1,271,500.00 | \$0.00 | S-MA |
| Berrysburg Municipal Authority | Dauphin | \$521,866.00 | \$178,134.00 | S-MA |
| Capital Region Water | Dauphin | \$5,500,000.00 | \$0.00 | S-MA |
| Lackawanna River Basin Sewer Authority | Lackawanna | \$3,753,300.00 | \$0.00 | S-MA |
| City of Johnstown | Cambria | \$5,090,300.00 | \$5,809,700.00 | S-M |
| Sandy Lake Township | Mercer | \$307,511.00 | \$310,639.00 | S-M |
| Oakdale Borough | Allegheny | \$340,495.00 | \$0.00 | W-M |
| Lehighon Water Authority | Carbon | \$4,593,000.00 | \$0.00 | W-MA |
| The Municipal Authority of the Borough of Midland | Beaver | \$3,549,200.00 | \$4,050,800.00 | W-MA |
| Steelton Borough Authority | Dauphin | \$3,050,000.00 | \$0.00 | W-MA |
| The Municipal Authority of the Borough of Greenville | Mercer | \$2,401,578.00 | \$1,443,422.00 | W-MA |
| Glendale Valley Municipal Authority | Cambria | \$2,750,000.00 | \$0.00 | W-MA |
| Municipal Authority of Harmar Township | Allegheny | \$1,375,000.00 | \$0.00 | W-MA |
| OCTOBER 19, 2016 | | | | |
| Laporte Borough | Sullivan | \$687,602.00 | \$326,128.00 | W-M |
| Borough of Everett Area Municipal Authority | Bedford | \$3,191,950.00 | \$1,558,050.00 | S-MA |
| Greene Township, Erie County | Erie | \$5,916,224.00 | \$3,655,276.00 | S-M |
| City of Johnstown | Cambria | \$6,082,200.00 | \$4,817,800.00 | S-M |
| Lower Yoder Township | Cambria | \$6,391,129.00 | \$4,493,871.00 | S-M |
| Moshannon Valley Joint Sewer Authority | Centre | \$3,902,000.00 | \$0.00 | S-MA |
| Pleasant Hills Authority | Allegheny | \$17,474,300.00 | \$0.00 | S-MA |
| Borough of Southmont | Cambria | \$5,818,566.00 | \$2,488,934.00 | S-M |
| West Elizabeth Sanitary Authority | Allegheny | \$4,942,485.00 | \$3,915,015.00 | S-MA |
| JANUARY 25, 2017 | | | | |
| Armstrong Conservation District | Clarion | \$374,973.00 | \$374,973.00 | NPS-PNIO |
| Berwick Area Jt SA | Columbia | \$2,909,917.00 | \$0.00 | S-MA |
| Chester CCD - Jacob Fisher | Chester | \$0.00 | \$974,323.00 | NPS-MA |
| Chester Stormwater Authority | Delaware | \$0.00 | \$1,000,000.00 | NPS-MA |
| Clintonville Borough SW Authority | Venango | \$1,352,967.00 | \$1,031,115.00 | S-MA |
| Edinboro Water Authority | Erie | \$7,000,000.00 | \$0.00 | W-MA |
| Greene Township, Erie County | Erie | \$6,540,457.00 | \$3,245,543.00 | S-M |
| Hazleton City Authority | Luzerne | \$2,500,000.00 | \$0.00 | W-MA |
| Horsham WSA | Montgomery | \$0.00 | \$10,000,000.00 | W-MA |
| Lorain Borough | Cambria | \$3,560,495.00 | \$2,689,705.00 | S-M |
| Lower Burrell City MA | Westmoreland | \$3,010,000.00 | \$0.00 | S-MA |
| New Castle Sanitation Authority | Lawrence | \$11,000,000.00 | \$0.00 | S-MA |
| Norwich Township | McKean | \$2,013,464.00 | \$736,536.00 | S-M |
| Orange Township | Columbia | \$487,728.00 | \$0.00 | S-M |
| Sewickley Township MSA | Westmoreland | \$2,661,222.00 | \$1,182,032.00 | S-MA |
| Western Westmoreland MA | Westmoreland | \$17,323,250.00 | \$0.00 | S-MA |

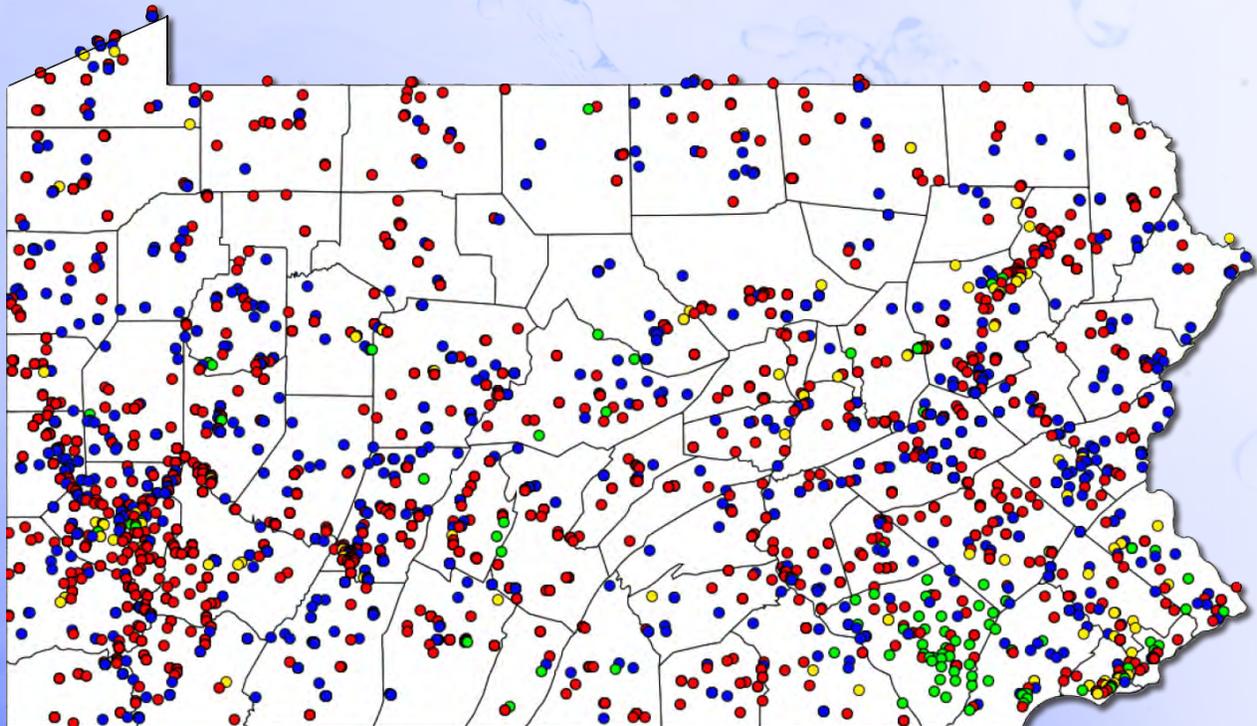
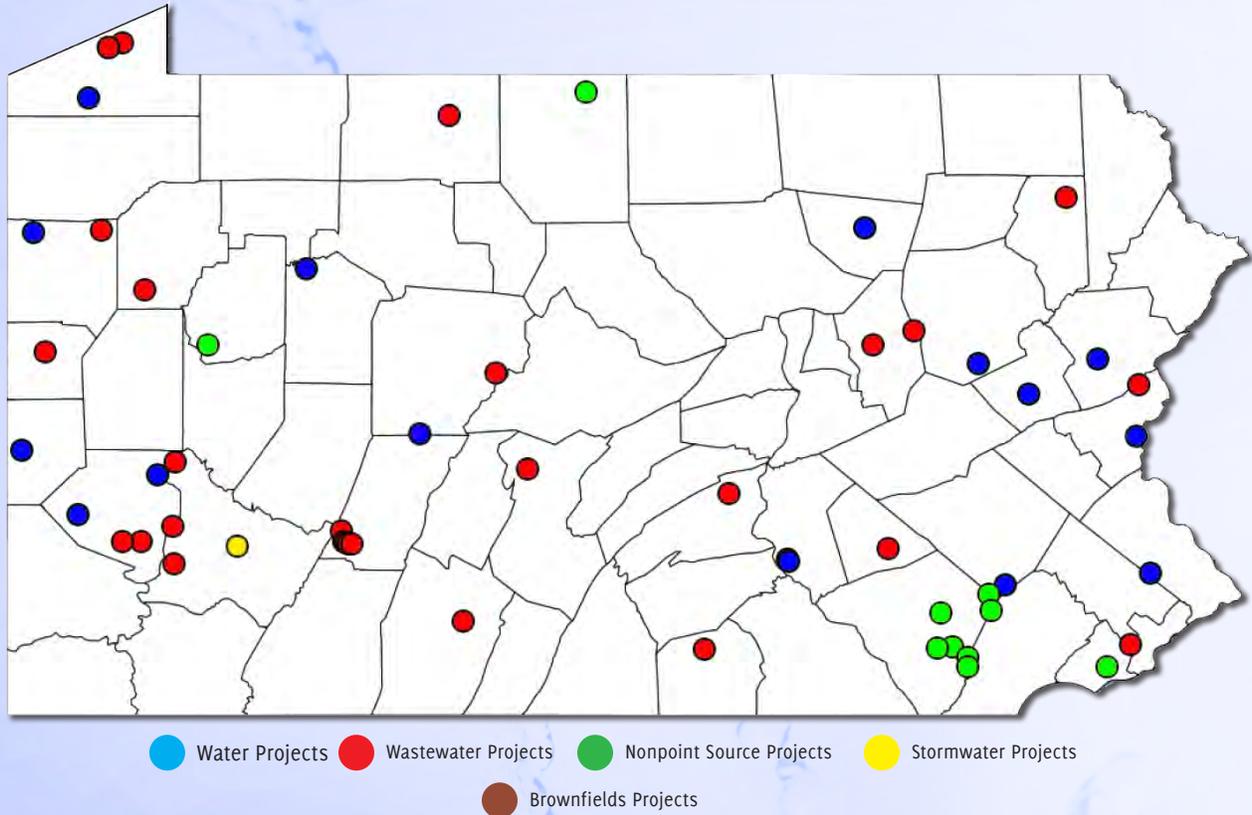
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

| Board Meeting Date / Project Name | County | Loan | Grant | Project Type |
|-------------------------------------|--------------|----------------|----------------|--------------|
| APRIL 19, 2017 | | | | |
| Aqua PA (Sun Valley) | Monroe | \$673,674.00 | \$1,673,945.00 | W-PIO |
| Easton Suburban Water Authority | Northampton | \$3,401,900.00 | \$0.00 | W-MA |
| Elverson Water Company | Chester | \$2,134,525.00 | \$0.00 | W-PIO |
| Eldred Township Municipal Authority | Jefferson | \$283,541.00 | \$546,459.00 | W-MA |
| Greene Township, Erie County | Erie | \$2,144,642.00 | \$7,255,358.00 | S-M |
| Yeadon Borough | Delaware | \$9,593,398.00 | \$0.00 | S-M |
| Unity Township | Westmoreland | \$0.00 | \$2,050,000.00 | NPS-M |
| Chester CCD - Daniel S. Esh | Lancaster | \$0.00 | \$350,467.00 | NPS-MA |
| Chester CCD - Fiddle Creek Dairy | Lancaster | \$0.00 | \$245,494.00 | NPS-MA |
| Chester CCD - David K Stoltzfus | Lancaster | \$0.00 | \$347,055.00 | NPS-MA |
| Chester CCD - Elmer Kauffman | Chester | \$0.00 | \$408,039.00 | NPS-MA |

Project type key:

- S = Sewer
- W = Water
- NPS = Non-Point Source
- C = Construction
- D = Design
- M = Municipality
- MA = Municipal Authority

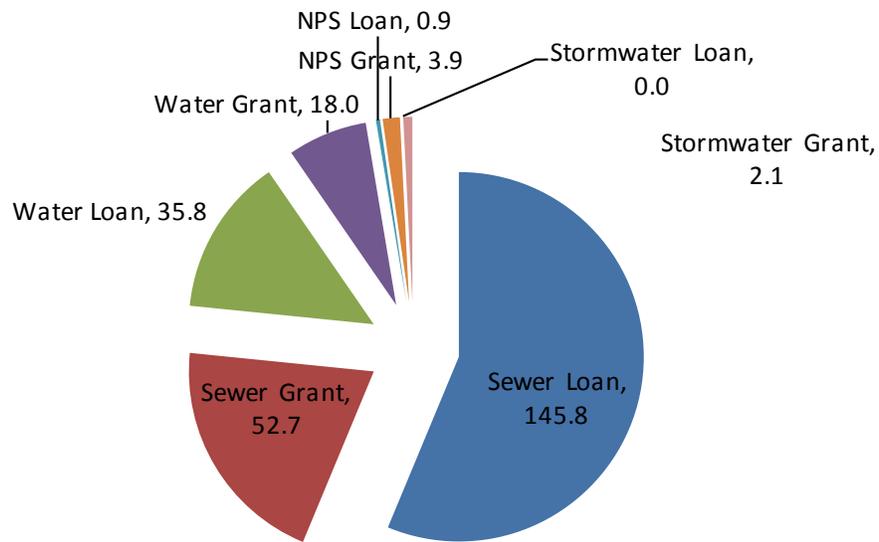
The following maps show the distribution of the projects approved during FY 2016-2017, as well as all projects approved by the Board since PENNVEST's creation in 1988.



The following charts show the distribution of PENNVEST funding by project type, first for FY 2016-2017 only and then for the entire life of the program.

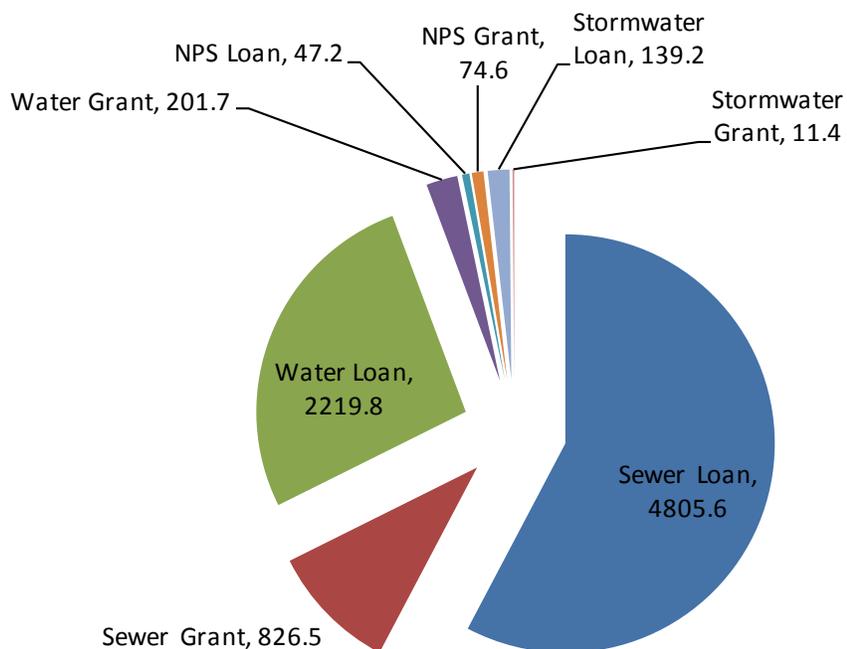
2016-2017 PENNVEST Project Funding

(millions of dollars)



Total PENNVEST Funding

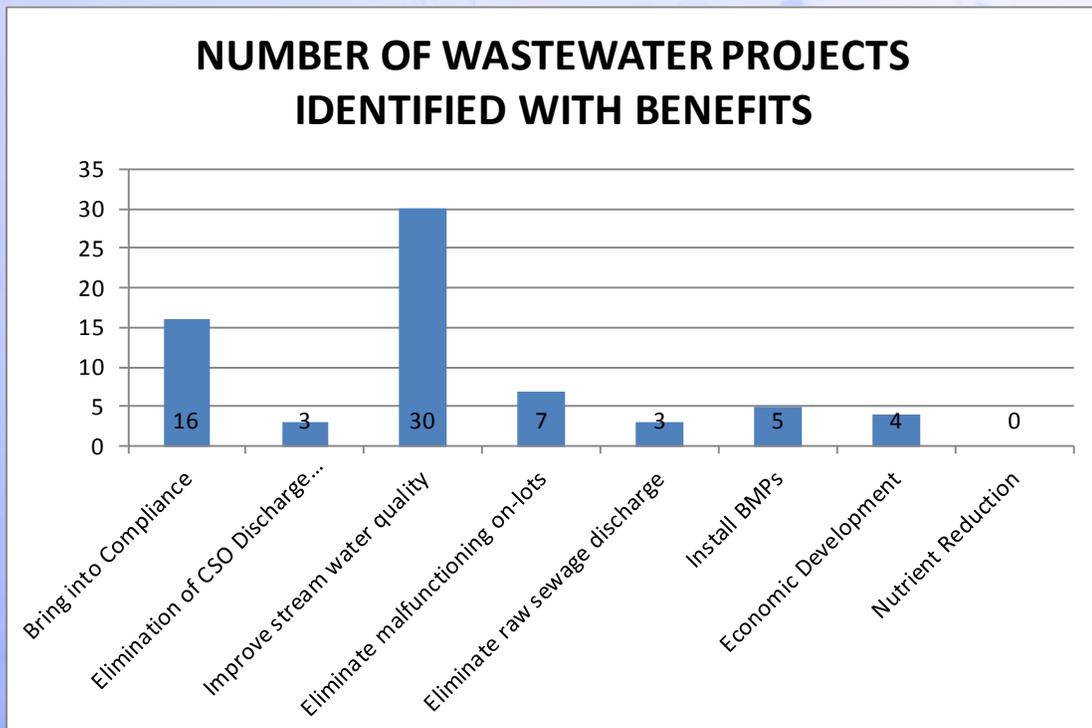
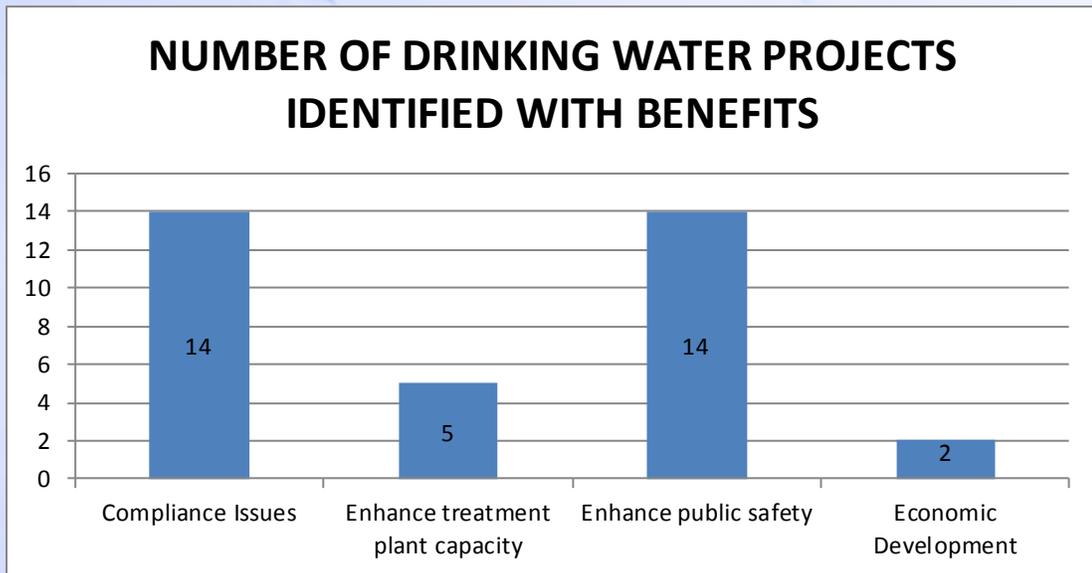
(millions of dollars)



Benefits created by PENNVEST funding

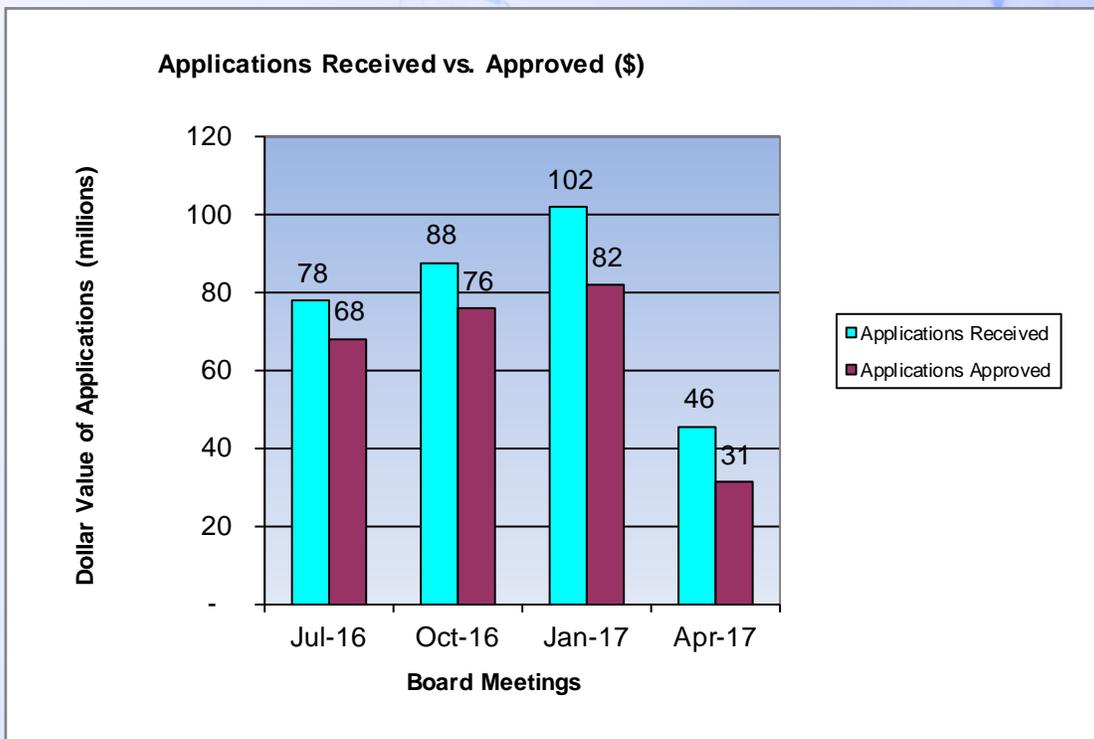
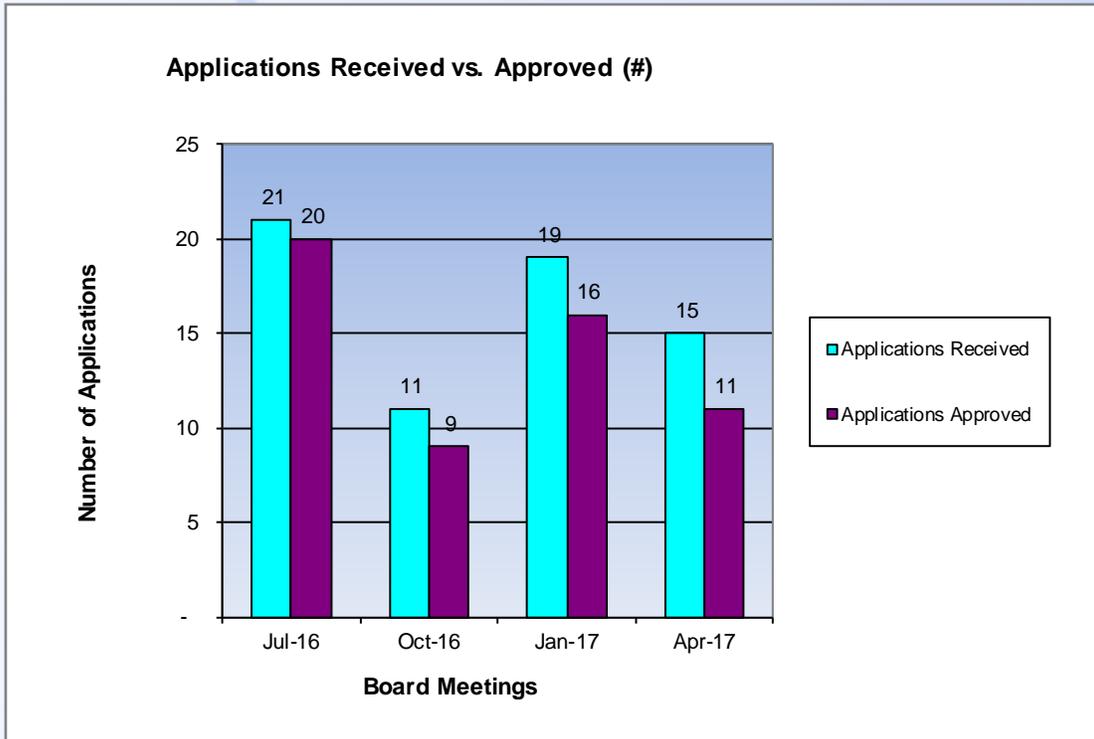
PENNVEST’s funding is intended to generate both environmental and economic benefits for the Commonwealth. We use a variety of measures to document the program’s contributions to the Commonwealth’s wellbeing.

These benefits generated by PENNVEST funding are shown graphically in the following two charts.



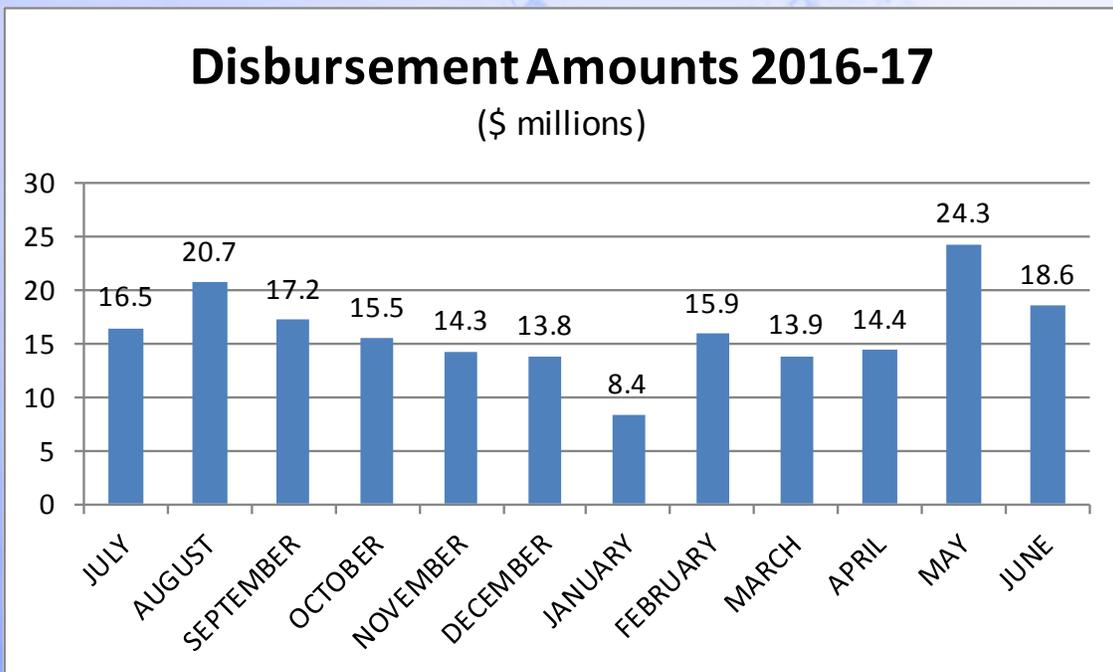
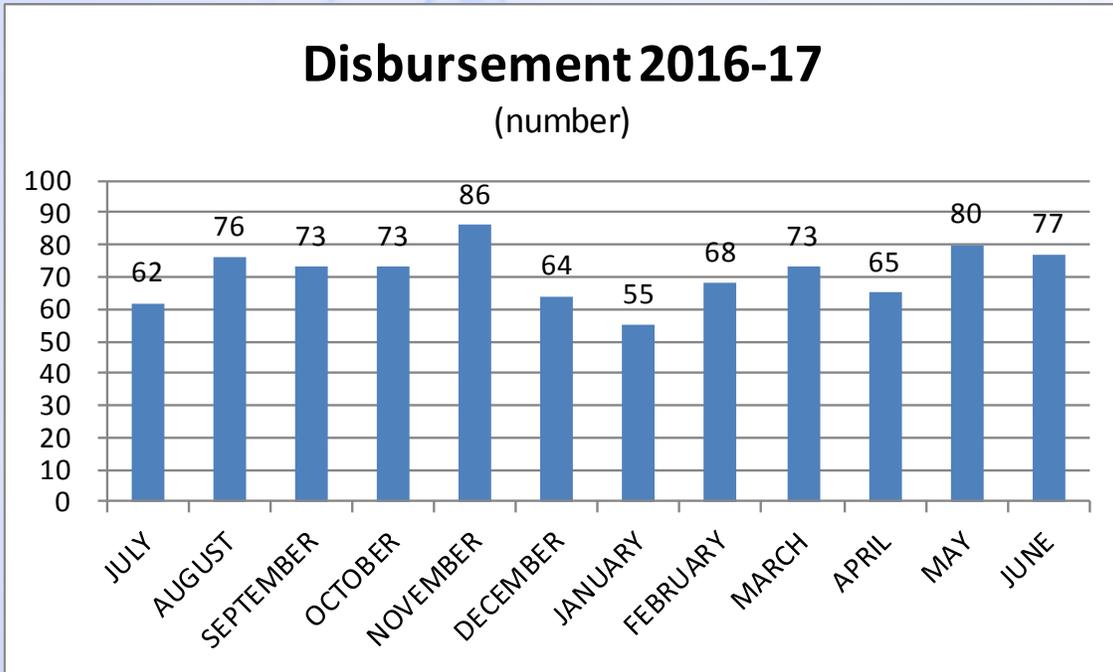
The following graphs show the demand for funding that the PENNVEST Board faced at each of its funding meetings during FY 2016-2017, relative to the number of projects and amounts of funding that the Board was able to

approve at each meeting. As was the case in the prior fiscal year, the interest in water infrastructure funding all across Pennsylvania was much greater than the funding available to PENNVEST to meet that demand.



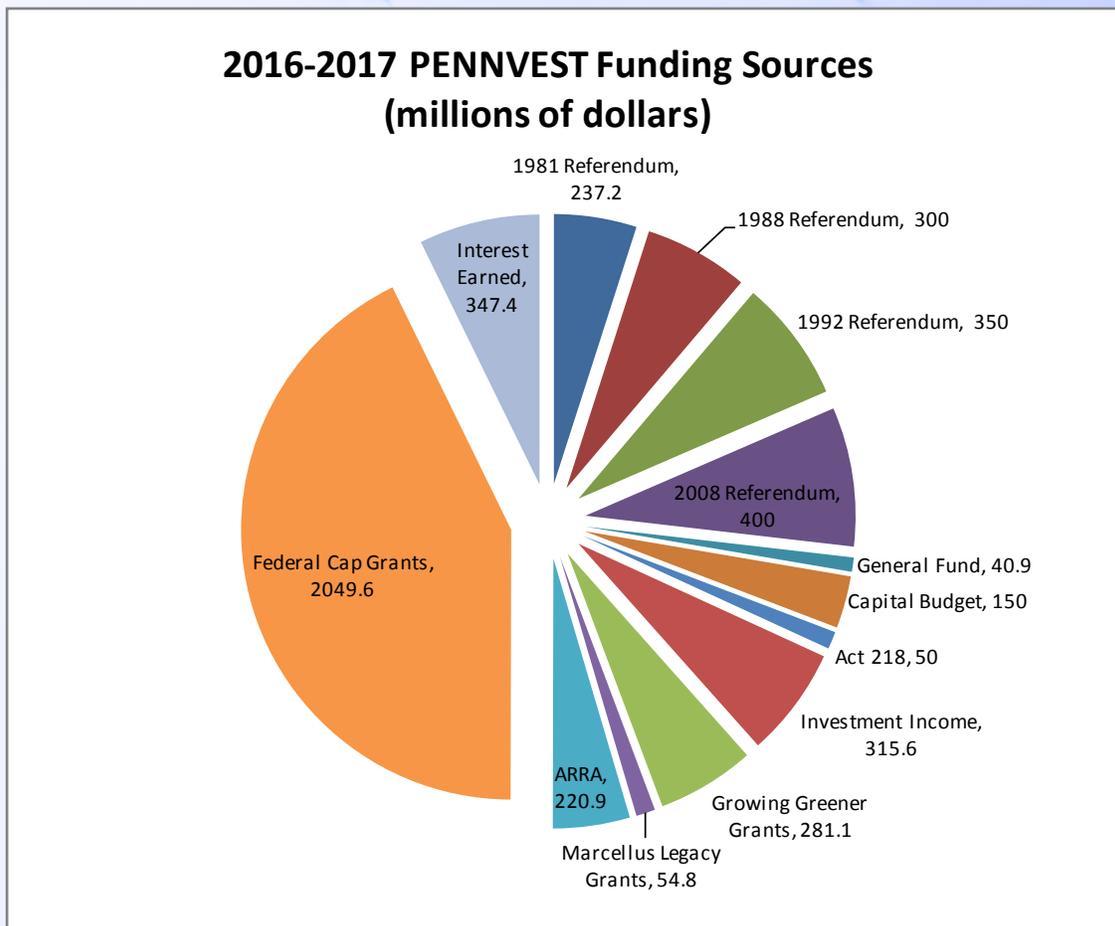
After Board approval, funding recipients enter into formal funding agreements with PENNVEST and commence construction of their approved projects. Forty-four projects completed settlement last year obligating \$354 million as PENNVEST disburses funds to them monthly as

construction occurs. During the past fiscal year, PENNVEST staff processed a total of 852 disbursements for \$193,972,216 million. The monthly distribution of these disbursements, both in numbers and dollar amounts, are as follows:



The following chart shows the sources of the funding that PENNVEST uses to finance the drinking water, wastewater, storm water and non-point source projects that it finances every year. This funding includes not only the Commonwealth General Obligation bond proceeds approved by a number of referenda, the most recent being in 2013, but also the normal capitalization

grants proceeds that PENNVEST received from the U.S. Environmental Protection Agency. Last fiscal year, the amounts received were \$52,925,000 million for wastewater projects and \$26,578,000 million for drinking water projects. The chart displays the sources of PENNVEST's funding since the program's inception in 1988.



Administrative Improvements

As has been the case for several years, PENNVEST continued its commitment to use technology for more efficient and less costly operations during FY 2016-2017. Our efforts continue to be placed on the implementation of new technology, updated software and methods that increase cybersecurity, improve accessibility and reduce IT ownership costs. We continue to coordinate with the IT structures and innovations implemented in other agencies throughout the Commonwealth to maximize our effectiveness and minimize internal costs as well as for our various constituencies.

Staff Professional Activities

Memberships and Leadership Positions

PENNVEST staff members were involved in a number of important programs and initiatives during FY 2016-17. Among the activities and organizations with which we were involved were:

- University of Pittsburgh Regional Water Management Task Force
- Westmoreland County Smart Growth Task Force
- DEP's Technical Assistance Committee
- PUC Small System Task Force
- Appalachian Regional Commission Project Review Committee
- Society of Women Environmental Professionals
- Women in the Environment
- Council of Infrastructure Finance Authorities Legislative Committee and Communications Committee
- Penn's corner alternative wastewater committee
- President, Board of Directors of the Watershed Coalition of the Lehigh Valley
- Board Member, Lehigh County Agricultural Extension Board
- Founder, Statewide Master Watershed Steward Program and Steering Committee Chair
- Organizer Lehigh Valley Watershed Conference
- Board Member, Monocacy Creek Watershed Association
- Lehigh Valley Greenways Steering Committee Member
- Schuylkill Action Network
- American Society of Civil Engineers
- Water Environment Association
- U.S. Army corps of Engineer's Ohio River Basin Group Enterprise and Infrastructure Committee
- Leadership Development Institute Alumni Association
- PA Recovery Resource Team: Infrastructure Recovery Workgroup Lead
- Westmoreland County Conservation District Storm Water Management Advisory Committee
- Government Finance Officers Association
- American Water Resources Association
- President – Water Coalition of the Lehigh Valley
- Master Watershed Steward Program – leader
- Environmental Advisory Councils
- Perkiomen Watershed Conservancy
- Pennsylvania Environmental Council
- Pennsylvania Organization for Watersheds and Rivers
- Chair of the Office of General Counsel Finance Practice Group
- Board Member – Pennsylvania State Employees Credit Union
- Chesapeake Bay Program Trading and Offsets Workgroup
- Office of General Counsel, Transactions Practice Group
- Office of General Counsel, Technology Practice Group
- Office of General Counsel, Records Access Management Committee
- Board Member – Ladies First in Finance
- Three Rivers Wet Weather Finance Committee
- Watershed Implementation Plan III – Steering Committee
- Watershed Implementation Plan III – Funding Work Group Co-Chair

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

| PROJECTS APPROVED THROUGH FY 2016 - 2017 | | | | |
|--|---------------|---------------------|----------------------|-------------------|
| County | # of Projects | \$ of Loan Approved | \$ of Grant Approved | \$ Total Approved |
| Adams | 25 | 63,038,439 | 7,173,234 | 70,211,673 |
| Allegheny | 190 | 427,837,290 | 44,290,934 | 472,128,224 |
| Armstrong | 63 | 115,763,572 | 53,454,679 | 169,218,251 |
| Beaver | 74 | 169,927,509 | 15,334,171 | 185,261,680 |
| Bedford | 48 | 89,198,574 | 13,770,560 | 102,969,134 |
| Berks | 54 | 241,910,886 | 10,940,620 | 252,851,506 |
| Blair | 55 | 193,960,268 | 22,449,955 | 216,410,223 |
| Bradford | 33 | 43,432,307 | 12,573,166 | 56,005,473 |
| Bucks | 37 | 78,595,212 | 4,343,192 | 82,938,404 |
| Butler | 43 | 129,296,647 | 2,654,859 | 131,951,506 |
| Cambria | 144 | 485,709,695 | 94,587,310 | 580,297,005 |
| Cameron | 5 | 17,426,465 | 2,636,615 | 20,063,080 |
| Carbon | 42 | 101,135,186 | 7,860,577 | 108,995,763 |
| Centre | 43 | 70,782,605 | 14,500,001 | 85,282,606 |
| Chester | 46 | 81,406,750 | 8,492,159 | 89,898,909 |
| Clarion | 53 | 85,708,462 | 46,177,885 | 131,886,347 |
| Clearfield | 76 | 191,193,436 | 40,666,229 | 231,859,665 |
| Clinton | 24 | 65,876,523 | 15,140,980 | 81,017,503 |
| Columbia | 23 | 56,933,467 | 10,499,338 | 67,432,805 |
| Crawford | 39 | 75,039,021 | 10,668,441 | 85,707,462 |
| Cumberland | 15 | 32,959,344 | 4,874,341 | 37,833,685 |
| Dauphin | 46 | 154,313,458 | 24,118,806 | 178,432,264 |
| Delaware | 45 | 86,452,348 | 3,948,350 | 90,400,698 |
| Elk | 26 | 46,388,025 | 14,807,388 | 61,195,413 |
| Erie | 64 | 161,870,103 | 31,416,921 | 193,287,024 |
| Fayette | 69 | 162,643,902 | 26,630,353 | 189,274,255 |
| Forest | 4 | 1,711,071 | 1,104,500 | 2,815,571 |
| Franklin | 26 | 77,552,463 | 2,454,219 | 80,006,682 |
| Fulton | 8 | 1,608,845 | 3,356,946 | 4,965,791 |
| Greene | 34 | 58,336,761 | 22,402,598 | 80,739,359 |
| Huntingdon | 43 | 59,532,341 | 32,918,255 | 92,450,596 |
| Indiana | 47 | 94,907,086 | 44,835,501 | 139,742,587 |
| Jefferson | 28 | 57,055,476 | 11,344,263 | 68,399,739 |
| Juniata | 10 | 16,033,671 | 1,310,658 | 17,344,329 |
| Lackawanna | 44 | 169,960,539 | 1,775,000 | 171,735,539 |
| Lancaster | 72 | 95,972,151 | 15,752,633 | 111,724,784 |
| Lawrence | 35 | 95,012,647 | 14,480,075 | 109,492,722 |
| Lebanon | 25 | 75,884,406 | 4,839,037 | 80,723,443 |
| Lehigh | 34 | 70,382,232 | 6,169,820 | 76,552,052 |
| Luzerne | 114 | 226,406,425 | 39,127,613 | 265,534,037 |
| Lycoming | 38 | 177,639,676 | 23,553,362 | 201,193,038 |
| Mckean | 26 | 48,542,266 | 8,714,676 | 57,256,942 |
| Mercer | 47 | 96,965,145 | 7,114,339 | 104,079,484 |
| Mifflin | 18 | 53,960,011 | 17,112,908 | 71,072,919 |
| Monroe | 36 | 100,246,829 | 14,533,001 | 114,779,830 |
| Montgomery | 26 | 66,000,426 | 11,373,273 | 77,373,699 |

| PROJECTS APPROVED THROUGH FY 2016 - 2017 | | | | |
|--|---------------|----------------------|----------------------|----------------------|
| County | # of Projects | \$ of Loan Approved | \$ of Grant Approved | \$ Total Approved |
| Montour | 7 | 13,834,193 | 12,614,000 | 26,448,193 |
| Northampton | 39 | 140,946,179 | 2,349,068 | 143,295,247 |
| Northumberland | 41 | 121,648,612 | 51,059,671 | 172,708,283 |
| Perry | 21 | 34,593,758 | 12,540,412 | 47,134,170 |
| Philadelphia | 24 | 293,756,417 | 4,387,217 | 298,143,634 |
| Pike | 17 | 20,387,834 | 1,212,417 | 21,600,251 |
| Potter | 15 | 22,748,583 | 7,614,882 | 30,363,465 |
| Schuylkill | 117 | 289,692,340 | 27,054,407 | 316,746,747 |
| Snyder | 17 | 15,024,523 | 3,740,801 | 18,765,324 |
| Somerset | 69 | 120,715,057 | 21,102,257 | 141,817,314 |
| Sullivan | 9 | 2,781,449 | 1,934,478 | 4,715,927 |
| Susquehanna | 9 | 7,863,228 | 12,063,263 | 19,926,491 |
| Tioga | 37 | 36,846,086 | 15,823,132 | 52,669,218 |
| Union | 15 | 22,258,432 | 2,875,139 | 25,133,571 |
| Venango | 24 | 37,190,707 | 10,810,870 | 48,001,577 |
| Warren | 20 | 62,744,207 | 12,053,381 | 74,797,588 |
| Washington | 83 | 185,808,482 | 24,811,096 | 210,619,578 |
| Wayne | 24 | 53,402,720 | 16,376,438 | 69,779,158 |
| Westmoreland | 143 | 324,628,620 | 40,450,814 | 365,079,434 |
| Wyoming | 12 | 9,718,532 | 1,497,945 | 11,216,477 |
| York | 25 | 46,518,289 | 3,420,517 | 49,938,806 |
| Grand Total | 2,865 | 6,935,618,208 | 1,114,075,946 | 8,049,694,154 |



(Component Unit of the
Commonwealth of Pennsylvania)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2017 and 2016



PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor’s Report | 1 - 3 |
| Management’s Discussion and Analysis | 4 - 11 |
| Basic Financial Statements: | |
| Statements of Net Position | 12 |
| Statements of Revenues, Expenses, and Changes in Net Position | 13 |
| Statements of Cash Flows | 14 - 15 |
| Notes to Financial Statements | 16 - 32 |
| Required Supplementary Information: | |
| Schedules of PENNVEST’s Proportionate Share of the Net Pension Liability | 33 |
| Schedules of PENNVEST’s Contributions | 34 |
| Other Supplemental Information: | |
| Federal Clean Water State Revolving Loan Fund: | |
| Schedules of Net Position | 35 |
| Schedules of Revenues, Expenses, and Changes in Net Position | 36 |
| Schedules of Cash Flows | 37 |
| Federal Drinking Water State Revolving Loan Fund: | |
| Schedules of Net Position | 38 |
| Schedules of Revenues, Expenses, and Changes in Net Position | 39 |
| Schedules of Cash Flows | 40 |
| Notes to Fund Schedules | 41 |
| Schedules of Delinquent Loans | 42 |
| 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 <i>Government Auditing Standards</i> | 43 - 44 |



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pennsylvania Infrastructure Investment Authority
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the Pennsylvania Infrastructure Investment Authority ("PENNVEST"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise PENNVEST's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 PENNVEST'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 PENNVEST'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 PENNVEST, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Schedules of PENNVEST's Proportionate Share of the Net Pension Liability on page 33, and the Schedules of PENNVEST's Contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PENNVEST's basic financial statements. The Other Supplemental Information on pages 35 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplemental Information on pages 35 through 41 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. 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 Other



Supplementary Information on pages 35 through 41 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedules of Delinquent Loans on page 42 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of PENNVEST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PENNVEST's internal control over financial reporting and compliance.

Mitligan & Company, LLC

October 27, 2017
Philadelphia, PA



PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

This section of Pennsylvania Infrastructure Investment Authority's (PENNVEST) annual financial report presents the Management's Discussion and Analysis (MD&A) of PENNVEST's financial performance during the fiscal year that ended June 30, 2017. It is intended to be read in conjunction with the PENNVEST financial statements and accompanying notes, which follow this section.

FINANCIAL HIGHLIGHTS

In 2017, Total Net Position increased by \$143.0 million and Total Assets increased by \$154.7 million. The Current Liabilities were impacted by an increase in the outstanding balance of the Commercial Paper program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis, financial statements, and other supplemental information. The financial statements also include notes that explain in more detail some of the information in the financial statements. The MD&A serves as an introduction to the basic financial statements and other supplementary information and presents management's examination and analysis of PENNVEST's financial condition and performance.

REQUIRED FINANCIAL STATEMENTS

The financial statements of PENNVEST report information about PENNVEST using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statements of Net Position include all of PENNVEST's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about investments, revenue bonds, and federal government payments. All of the current year's revenues are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the fiscal condition of PENNVEST's operations over the past year and can be used to determine whether PENNVEST has remained creditworthy and in a positive financial order. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about PENNVEST's cash receipts and cash disbursements, net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as, where did the cash come from, what was the cash used for, and what was the change in cash balance during the report period.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended June 30, 2017

FINANCIAL ANALYSIS

The issued report provides comparative statements for a two-year period. This presentation enables a reader to determine by category the basic analysis of a year's activity. The Statements of Net Position, and the Statements of Revenues, Expenses, and Changes in Net Position report information about PENNVEST and provide an excellent examination of financial performance. These two statements report the net position of PENNVEST over the course of two years. Over time, increases or decreases in PENNVEST's net position is one gauge of whether its financial health is improving or deteriorating. This alone will not provide the total picture of financial health but it is a good indicator. Additional information such as the status of assets and liabilities and the reduction in long-term debt will provide a larger picture of the status of fiscal health.

The following table summarizes the net position for fiscal years ended June 30, 2017 and 2016.

| | Table 1 (In Thousands) | |
|--|--|---------------------|
| | <u>Condensed Statement's of Net Position</u> | |
| | <u>2017</u> | <u>2016</u> |
| Current Assets | \$ 1,607,316 | \$ 1,388,717 |
| Noncurrent Assets | <u>2,355,972</u> | <u>2,419,911</u> |
| Total Assets | 3,963,288 | 3,808,628 |
| Deferred Outflows | <u>1,685</u> | <u>1,587</u> |
| Total Assets and Deferred Outflows | <u>3,964,973</u> | <u>3,810,215</u> |
| Current Liabilities | 68,893 | 43,085 |
| Noncurrent Liabilities | <u>239,883</u> | <u>254,105</u> |
| Total Liabilities | 308,776 | 297,190 |
| Deferred Inflows | <u>178</u> | <u>10</u> |
| Total Liabilities and Deferred Inflows | <u>308,954</u> | <u>297,200</u> |
| Total Net Position | <u>\$ 3,656,019</u> | <u>\$ 3,513,015</u> |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2017

FINANCIAL ANALYSIS, Continued

The above table provides several financial indicators that depict the fiscal health of PENNVEST. First, Total Net Position increased in 2017 by 4.1%. The Federal Clean Water State Revolving Fund (CWSRF) has a significant impact on the Total Net Position line, as it represents 59.2% of the Total Net Position. This reflects the strength of the Federal Clean Water program in Total Net Position.

Current Assets increased in 2017 by \$218.6 million or 15.7%. The increase in Current Assets was largely the result of increases in Investments (\$212.4 million) and Investments – security lending collateral (\$14.8 million). These increases were partially offset by decreases in Cash and Cash Equivalents (\$5.3 million) and Due from Federal Government (\$6.6 million). The increase in Investments can be primarily attributed to a decrease in the undisbursed, encumbered funds for projects and increase in undisbursed loan repayments.

Noncurrent Assets decreased in 2017 by \$63.9 million or 2.6%. This decrease is due to Loans Receivable (\$64.7 million) as a result of a decrease in the size of the outstanding loan portfolio. PENNVEST is a Revolving Loan Program. In a Revolving Loan Program, principal and interest payments received from borrowers are recycled back into the program and are available for future loan disbursements. The ability to encumber against future year revenues is critical for a revolving program. Noncurrent Loans Receivable, Gross, are those future loans that are due in more than one year. The Noncurrent Asset total is reduced by the Allowance for Loan Losses which is \$40.1 million for the year ended June 30, 2017. The loan loss allowance is an estimate of the amount of Loans Receivable that will not be collected.

Current Liabilities increased in 2017 by \$25.8 million or 59.9%. This increase was partly due to Securities Lending Obligation (\$14.8 million) and Short-term Obligations (\$10.0 million). Short-term Obligations increase due to increased use of Commercial Paper.

The Securities Lending Obligation, as described in Note 2, accounts for 57.3% of Total Current Portion of Liabilities in 2017. Excluding the Securities Lending Obligation, Total Current Portion of Liabilities increased 60.0% in 2017, as a result of the change in Short-term Obligations explained above.

Noncurrent Liabilities decreased in 2017 by \$14.2 million or 5.6%. This decrease is primarily the result of Due to Commonwealth of Pennsylvania (\$12.1 million) for the repayments made during 2017.

The PENNVEST Program's financial picture reflects continued growth in 2017. The Total Net Position growth of 4.1% or \$143.0 million is bolstered by the Clean Water State Revolving Fund Net Position of \$2.2 billion, which represents 59.2% of Total Net Position of \$3.7 billion. Supported by the Clean Water State Revolving Fund federal program, the PENNVEST Program continues to show sustained growth.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended June 30, 2017

OPERATING REVENUES AND EXPENSES

The Program has not received Commonwealth appropriations for operations since 1996. The cost of the Program has been funded from investment earnings, the repayment of loans, and reimbursement of allowable federal administrative expenses.

Table 2 (In Thousands)
Condensed Statements of Operating Revenues and Expenses

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Operating Revenues: | | |
| Interest on loan receivables | \$ 37,683 | \$ 35,997 |
| Other federal and state | <u>32,948</u> | <u>33,739</u> |
| Total Operating Revenues | 70,631 | 69,736 |
| Recovery of loan losses | <u>716</u> | <u>12,661</u> |
| Net Operating Revenues | <u>71,347</u> | <u>82,397</u> |
| Operating Expenses: | | |
| Administration | (14,977) | (15,187) |
| Interest and amortization expense | (4,315) | (4,394) |
| Grants/"principal forgiveness" to program participants | <u>(52,418)</u> | <u>(50,061)</u> |
| Total Operating Expenses | (71,710) | (69,642) |
| Nonoperating Revenues | 72,104 | 27,619 |
| Capital Contributions | <u>71,263</u> | <u>71,334</u> |
| Increase In Net Position | <u>\$ 143,004</u> | <u>\$ 111,708</u> |

The Operating Revenues, in 2017 were driven by the Other Federal and State Operating Grants of \$32.9 million, and interest repayments on loans of \$37.7 million.

The Total Operating Expenses increased by 3.0%, or \$2.1 million in 2017, due to an increase in the Grants to Program Participants and Administration expenses. The Principal Forgiveness funds from the Capitalization Grants varies over the years and affects the amount of funds available to disburse from year to year. The amount disbursed as Grants/Principal Forgiveness is also a direct effect of how many applicants qualify for grants or principal forgiveness. There has been a decrease in the amount of Environmental Stewardship funds and the Marcellus Legacy fund to fund grants to program participants. PENNVEST Grants/Principal Forgiveness funding enables economically challenged borrowers to fund projects that otherwise would not be obtainable.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended June 30, 2017

OPERATING REVENUES AND EXPENSES, Continued

Table 3 examines the loan loss allowance for each of the loan portfolios of PENNVEST. The CWSRF loan loss allowance is 28.1% of the total current year Provision for Loan Losses. The loan loss is an allowance in the Statements of Net Position, which reflects the amount which, in management's judgment, establishes an adequate allowance to report possible losses on loans.

Table 3 (In Thousands)
 Loan Loss Allowance

| <u>Loan Loss Allowance</u> | <u>2017</u> | <u>2016</u> |
|----------------------------|------------------|------------------|
| CWSRF | \$ 11,252 | \$ 21,903 |
| DWSRF* | 2,521 | 7,488 |
| State and Revenue Bonds | <u>26,337</u> | <u>11,435</u> |
| Total Program | <u>\$ 40,110</u> | <u>\$ 40,826</u> |

*Drinking Water State Revolving Fund

Table 4 depicts the PENNVEST loan portfolios, excluding On-Lot Loans, by risk code classification. The largest dollar change in 2017 occurred in the Non-Speculative project rating. This risk code represented \$1.7 billion or 69.2% of the 2017 total. The largest percent change in 2017 was in the Concern High Rate Impact of a 60.6%. This code represents the concern of high user rates of the borrower of PENNVEST funds. The rating of Non-Speculative reflects that the projects receiving this rating are not suspected financially to be able to repay their PENNVEST loans. Overall the risk assessment of the loan portfolio remains good as the Non-Speculative rating represents 69.2% of the total.

Table 4 (In Thousands)
Loan Portfolio by Risk Code

| <u>Risk Codes</u> | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Speculative | \$ 726,373 | \$ 746,792 |
| Concern High Rate Impact | 39,600 | 100,434 |
| Concern Service User | 12,106 | 10,284 |
| Non-Speculative | <u>1,744,500</u> | <u>1,751,218</u> |
| Total Loan Portfolio | <u>\$ 2,522,579</u> | <u>\$ 2,608,728</u> |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended June 30, 2017

REVENUES

As PENNVEST is a Revolving Loan Program, it is essential that loan repayments be made in a timely manner. Over 99.9% of all loans in every PENNVEST portfolio are submitting repayments electronically with the electronic funds transfer program offered under the Automatic Clearing House (ACH) system; however, funds have to be available for payment in the borrowers' accounts. By all accounts, the PENNVEST ACH system is working and funds are available for repayment. Table 5 illustrates the loan receipts by the different loan portfolios of PENNVEST.

As can be observed from Table 5, loan receipts vary for each of the PENNVEST portfolios. These receipts are categorized as deposits that do not include any transfers. The CWSRF Program had the largest dollar collection of \$136.1 million or 57.7% of the total collected. The CWSRF is a major portfolio in the PENNVEST program. The DWSRF Program had a slight increase in loan receipts, with 2017 receipts totaling \$42.8 million or 18.1% of the total loan receipts. Total loan receipts increased by \$40.0 million from 2016. This increase is a result of a significant increase in the CWSRF Federal Clean Water Program loan receipts following a period of decreased funding requests and settlements.

Table 5 (In Thousands)
 Loan Receipts from Customers

| <u>Loan receipts</u> | <u>2017</u> | <u>2016</u> |
|------------------------------|-------------------|-------------------|
| CWSRF Federal Loans | \$ 136,116 | \$ 96,230 |
| DWSRF Federal Loans | 42,819 | 41,035 |
| State and Revenue Bond Loans | <u>57,074</u> | <u>58,859</u> |
| Totals | <u>\$ 236,009</u> | <u>\$ 196,124</u> |

Table 6 is an illustration of the PENNVEST disbursements to customers. The total disbursement of \$134.5 million reflects a decrease of \$64.5 million from 2016 or a decrease of 32.4%. The State and Revenue Bond disbursements decreased from 2016 by \$5.9 million or 15.1%. The CWSRF Federal disbursement reflects a decrease from 2016 of 48.3% and represents 45.3% of total disbursements. The Drinking Water Disbursements decreased from 2016 by 3.8% and is 29.9% of the total disbursements. This decrease is a result of a decrease in the number/size of loans being made, and partially due to an increase in the amount of grants/principal forgiveness provided to applicants.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended June 30, 2017

REVENUES, Continued

Table 6 (In Thousands)
Loan Disbursements to Customers

| Loan disbursements | 2017 | 2016 |
|------------------------------|------------|------------|
| CWSRF Federal Loans | \$ 60,947 | \$ 117,949 |
| DWSRF Federal Loans | 40,165 | 41,730 |
| State and Revenue Bond Loans | 33,431 | 39,358 |
| All Portfolios Disbursements | \$ 134,543 | \$ 199,037 |

LONG-TERM DEBT ADMINISTRATION

In 2015, PENNVEST issued Revenue Bonds Series 2015A, in the amount of \$65.0 million. The bonds were issued at a premium of \$8.3 million. The proceeds of the bonds together with other available funds were used to pay off the outstanding commercial paper.

At June 30, 2017, PENNVEST had \$78.5 million of revenue bond debt and commercial paper debt outstanding. Revenue Bonds Payable increased in 2015 by \$71.7 million from the previous year due to issuance of new debt. The following is a summary of Revenue Bond activity for the 2016-2017 fiscal year.

| <u>Table 7 (In Thousands)</u> | |
|-----------------------------------|-----------|
| Outstanding debt July 1, 2016 | \$ 71,052 |
| Less: Principal payments | 2,131 |
| Add: 2016 Debt Issued | 10,005 |
| Net change in unamortized premium | 415 |
| Outstanding debt at June 30, 2017 | \$ 79,341 |

See Note 7 to the financial statements for detailed descriptions of the outstanding debt and the current year activity.

FUTURE PROGRAMS UNDER DEVELOPMENT

Commercial Paper Programs

PENNVEST established a Commercial Paper (CP) program in 2010-2011 in our Commonwealth program. This mechanism allows PENNVEST to better manage our cash flows so that funds on

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Concluded
For the Year Ended June 30, 2017

Commercial Paper Programs, Continued

hand with the Commonwealth Treasurer can be invested for a longer term and a higher rate than would otherwise be the case.

PENNVEST plans to expand its Commercial Paper program to both the CWSRF and DWSRF programs during 2017-2018. A Trustee will be used for this new program as well as the Commonwealth program.

Nutrient Trading

PENNVEST continued the Nutrient Credit Trading Program during 2016-2017 as a clearing house for nitrogen and phosphorous credits and to also facilitate Bilateral Agreements between credit producers and municipalities wanting to purchase the credits outside of the auction process.

Loan Guarantee Program

During 2016-2017 PENNVEST continued developing a Loan Guarantee program to supplement its loan program. This allows PENNVEST to provide further assistance to the borrowers when the cost of the project is more than PENNVEST can lend. The Loan Guarantee allows the borrowers to find private financing for the balance of a project with a reduced interest rate.

Mixed Use Forested Buffers

In fiscal year 2016-2017 PENNVEST approved the transfer of up to \$3 million in grant capacity (\$1 million in each of the next three years) to the Department of Conservation and Natural Resources to administer a program to install and support mixed use forested buffers in an effort to provide information and data necessary to build a business case demonstrating that buffers can be income producing and part of a long term sustainable funding source for similar projects.

CONTACTING PENNVEST'S DIRECTOR OF FINANCIAL MANAGEMENT

This financial report is designed to provide bondholders, investors, creditors, and federal and state agencies with a general overview of PENNVEST's finances and to demonstrate PENNVEST's accountability as a governmental agency. If you have any questions about this report or need additional financial information, contact Beverly Reinhold, Deputy Executive Director, Financial Management, PENNVEST, Room 434 Forum Building, 607 South Drive, Harrisburg, PA 17120.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 STATEMENTS OF NET POSITION
 JUNE 30, 2017 AND 2016
 (In Thousands)

| ASSETS | | |
|---|---------------------|---------------------|
| | 2017 | 2016 |
| Current Assets: | | |
| Cash and cash equivalents | \$ 22,612 | \$ 27,883 |
| Investment - securities lending collateral | 39,454 | 24,680 |
| Investments | 1,372,184 | 1,159,812 |
| Loans receivable, gross | 164,208 | 164,989 |
| Accrued interest receivable | 5,128 | 3,475 |
| Due from Commonwealth of Pennsylvania | 2,512 | 52 |
| Due from federal government | 1,218 | 7,826 |
| Total Current Assets | <u>1,607,316</u> | <u>1,388,717</u> |
| Noncurrent Assets: | | |
| Loans receivable, gross | 2,381,082 | 2,445,737 |
| Allowance for loan losses | (40,110) | (40,826) |
| Due from Commonwealth of Pennsylvania | 15,000 | 15,000 |
| Total Noncurrent Assets | <u>2,355,972</u> | <u>2,419,911</u> |
| Total Assets | <u>3,963,288</u> | <u>3,808,628</u> |
| Deferred Outflows: | | |
| Pension | 1,685 | 1,587 |
| Total | <u>1,685</u> | <u>1,587</u> |
| Total Assets and Deferred Outflows | <u>3,964,973</u> | <u>3,810,215</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 3,511 | 1,725 |
| Due to Commonwealth of Pennsylvania | 13,549 | 14,423 |
| Unearned revenue | 21 | 22 |
| Securities lending obligation | 39,454 | 24,680 |
| Short-term obligations | 10,005 | - |
| Compensated absences | 113 | 105 |
| Current portion of revenue bonds payable | 2,240 | 2,130 |
| Total Current Liabilities | <u>68,893</u> | <u>43,085</u> |
| Noncurrent Liabilities: | | |
| Due to Commonwealth of Pennsylvania | 165,099 | 177,225 |
| Compensated absences | 377 | 418 |
| Noncurrent revenue bonds payable | 66,266 | 68,922 |
| Net pension liability | 6,891 | 6,519 |
| Other noncurrent liabilities | 1,250 | 1,021 |
| Total Noncurrent Liabilities | <u>239,883</u> | <u>254,105</u> |
| Total Liabilities | <u>308,776</u> | <u>297,190</u> |
| Deferred Inflows: | | |
| Pension | 178 | 10 |
| Total | <u>178</u> | <u>10</u> |
| Total Liabilities and Deferred Inflows | <u>308,954</u> | <u>297,200</u> |
| NET POSITION | | |
| Restricted: | | |
| Federal clean water revolving loan program | 2,164,982 | 2,046,902 |
| Federal drinking water revolving loan program | 689,117 | 656,781 |
| Unrestricted | 801,920 | 809,332 |
| Total Net Position | <u>\$ 3,656,019</u> | <u>\$ 3,513,015</u> |

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | 2017 | 2016 |
|--|--------------|--------------|
| Operating Revenues: | | |
| Interest on loans receivable | \$ 37,683 | \$ 35,997 |
| Federal and state | 32,948 | 33,739 |
| Operating Revenues before Provision for Loan Losses | 70,631 | 69,736 |
| Recovery of loan losses | 716 | 12,661 |
| Net Operating Revenues | 71,347 | 82,397 |
| Operating Expenses: | | |
| Administration | 14,977 | 15,187 |
| Interest and amortization expense | 4,315 | 4,394 |
| Grants/"principal forgiveness" to program participants | 52,418 | 50,061 |
| Total Operating Expenses | 71,710 | 69,642 |
| Operating (Loss)/Income | (363) | 12,755 |
| Nonoperating Revenues: | | |
| Investment income | 72,104 | 27,619 |
| Total Nonoperating Revenues | 72,104 | 27,619 |
| Income before Capital Contributions | 71,741 | 40,374 |
| Capital Contributions: | | |
| Other federal and state | 71,263 | 71,334 |
| Total Capital Contributions | 71,263 | 71,334 |
| Increase In Net Position | 143,004 | 111,708 |
| Net Position - Beginning of Year | 3,513,015 | 3,401,307 |
| Net Position - End of Year | \$ 3,656,019 | \$ 3,513,015 |

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Loan repayments from borrowers | \$ 236,009 | \$ 196,124 |
| Loan disbursements to borrowers | (134,543) | (199,037) |
| Payments for goods and services | (12,554) | (14,590) |
| Grants/"principal forgiveness" to program participants | (52,418) | (50,061) |
| Other federal and state receipts | <u>39,556</u> | <u>31,295</u> |
| Net Cash Provided By/(Used In) Operating Activities | <u>76,050</u> | <u>(36,269)</u> |
| Cash Flows from Capital Financing Activities: | | |
| Other federal and state capital contributions | 71,263 | 71,334 |
| Proceeds of short term obligations | 10,005 | - |
| Repayments of short term obligations | - | (74,000) |
| Repayment of bonds payable | (2,546) | (2,205) |
| Repayment of due to Commonwealth of Pennsylvania | (15,460) | (15,903) |
| Repayment of interest on bonds payable | <u>(4,316)</u> | <u>(4,394)</u> |
| Cash Provided By/(Used In) Capital Financing Activities | <u>58,946</u> | <u>(25,168)</u> |
| Cash Flows from Investing Activities: | | |
| Receipts from depositories | 72,104 | 27,619 |
| Net purchases of State Treasury Commonwealth Investment Pool | <u>(212,371)</u> | <u>(58,191)</u> |
| Cash Used In Investing Activities | <u>(140,267)</u> | <u>(30,572)</u> |
| Decrease In Cash and Cash Equivalents | <u>(5,271)</u> | <u>(92,009)</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>27,883</u> | <u>119,892</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 22,612</u> | <u>\$ 27,883</u> |

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 STATEMENTS OF CASH FLOWS, Continued
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | 2017 | 2016 |
|---|-----------|-------------|
| Reconciliation of Operating Income to Net Cash Provided By/(Used In) | | |
| Operating Activities: | | |
| Operating (loss)/income | \$ (363) | \$ 12,755 |
| Adjustments to reconcile operating income to net cash (used in)/provided by operating activities: | | |
| Interest on bonds payable not considered operating activities | 4,315 | 4,394 |
| Recovery of loan losses | (716) | (12,661) |
| Changes in operating assets and liabilities: | | |
| Loan receivable, gross | 65,436 | (38,791) |
| Accrued interest receivable | (1,653) | (120) |
| Due from/to Commonwealth of Pennsylvania | - | 4,207 |
| Due from federal government | 6,608 | (6,650) |
| Deferred outflow pension | (98) | (956) |
| Accounts payable | 1,786 | (21) |
| Accrued compensated absences | (33) | 2 |
| Unearned revenue | (1) | 22 |
| Net Pension Liability | 372 | 1,356 |
| Other noncurrent liabilities | 229 | 184 |
| Deferred inflow pension | 168 | 10 |
| Total adjustments | 76,413 | (49,024) |
| Net Cash Provided By/(Used In) Operating Activities | \$ 76,050 | \$ (36,269) |

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Pennsylvania Infrastructure Investment Authority (“PENNVEST”) is an instrumentality of the Commonwealth of Pennsylvania (“Commonwealth”) created by Act 16 of the General Assembly in March of 1988 (the PENNVEST Act). The purpose of PENNVEST is to finance long-term, low-interest loans for corporations, partnerships, sole proprietorships, non-profit organizations, authorities, and municipalities for repair, construction, reconstruction, rehabilitation, extension, and improvement of drinking water, storm water, and wastewater systems. PENNVEST’s On-Lot Program provides funding for the improvement of septic systems. PENNVEST is funded through revenue bonds, federal grants, Commonwealth appropriations, Commonwealth general obligation bonds, and the use of recycled loan repayments.

A governing body consisting of thirteen members, the chairman of which is a Governor appointee, administers the operations of PENNVEST. Other members include cabinet secretaries, legislators, and local government leaders, as well as representatives of the engineering community and the drinking water and wastewater industries.

PENNVEST, which is a component unit of the Commonwealth reporting entity, is presented as an Enterprise Fund on the accrual basis of accounting. Criteria considered in making this determination include the Commonwealth’s appointment of PENNVEST’s Board and the Commonwealth’s ability to impose its will on PENNVEST.

Measurement Focus and Basis of Accounting

PENNVEST’s activities are accounted for on a cost of services or “capital maintenance” approach under the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activities are included on its statement of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

PENNVEST utilizes the accrual basis of accounting wherein revenues are recognized in the period earned and expenses are recognized when they are incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of PENNVEST. Operating revenues consist primarily of interest on loans receivable, and federal and state grants given to program participants as grants or “principal forgiveness”. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities, such as investment income/loss.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Measurement Focus and Basis of Accounting, Continued

When an expense is incurred for purposes for which there are both restricted and unrestricted resources available, it is PENNVEST's policy to apply those expenses to restricted resources to the extent that they are available and then to unrestricted resources.

The accounting and reporting policies of PENNVEST conform to the accounting rules prescribed by the Governmental Accounting Standards Board ("GASB").

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. None of the reclassifications; however, affected the prior year change in net position.

Cash and Cash Equivalents

For purposes of the statements of cash flows, PENNVEST considers all highly liquid investments with an initial maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Investments are stated at fair value based on quoted market values.

Capital Contributions

Capital contributions represent contributions from the Commonwealth of Pennsylvania and the federal government for the loan programs.

Allowance for Loan Losses

The allowance for loan losses is used to report possible future losses on loans outstanding. Loan losses and recoveries of previously charged-off loans are charged or credited directly to the allowance for loan losses. The provision for loan losses, which is charged to current operations, reflects the amount, which in management's judgment establishes an adequate allowance to report possible losses on loans. Management's judgment is based upon a continuing review of the loan portfolio, past collection experience, and current economic conditions. While management uses available information to recognize losses on loans, future adjustments to the allowance may be necessary based on changes in economic conditions.

Investment/Interest Income

Interest income on investment securities is recorded when earned. Interest income on loans is accrued based on methods that result in a constant yield when related to the principal amounts outstanding.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted Net Position

Restricted net position represents net position that is restricted for revolving loans in the Federal Revolving Clean Water and Drinking Water Programs.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

The Statements of Net Position report a separate section for deferred outflows and inflows of resources. These separate financial statements elements represent consumption/acquisition of net position that applies to a future period(s), and so will not be recognized as an outflow/inflow of resources until then. PENNVEST has one item that qualifies for reporting in this category: deferred outflows/inflows related to pension.

Adoption of Governmental Accounting Standards Board Statements

GASB Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*" was issued in April 2016: This statement addresses the presentation of payroll-related measures in required supplementary information; the selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes; and the classification of payments made by employers to satisfy plan member contribution requirements. PENNVEST's adoption of this statement had no significant impact on the financial statements.

Pending Changes in Accounting Principles

In June 2015 the GASB issued a Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*". PENNVEST is required to adopt Statement No. 75 for its fiscal year 2018 financial statements.

In March 2017 the GASB issued a Statement No. 85, "*Omnibus 2017*". PENNVEST is required to adopt Statement No. 85 for its fiscal year 2018 financial statements.

PENNVEST has not completed the various analyses required to estimate the financial statement impact of the new pronouncements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

2. DEPOSIT AND INVESTMENT RISK

The trust indenture and the Commonwealth fiscal code, as amended, authorizes PENNVEST to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposit, fully insured or collateralized; certain commercial paper and repurchase agreements; highly rated bank promissory notes or investment funds or trusts; and “prudent man” investments as determined by PENNVEST’s depository (i.e. Commonwealth Treasury Department).

The majority of PENNVEST’s investments are invested in the Common Investment Pool of the Commonwealth which is managed by the Commonwealth’s Treasury Department (the Treasury Department).

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929 P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929 P.L. 177. No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Pennsylvania Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital.

The Treasury Department manages the Commonwealth Investment Program (“CIP”). The Treasury Department is required to exercise careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the CIP. Asset allocation targets among cash, equity securities, fixed income securities and alternatives are established in order to meet these overall objectives.

The Treasury Department has created two separate pools within the CIP, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income and cash and provides a high degree of liquidity and security but only modest returns. A less liquid vehicle, Pool 198, allows for investment in assets that offer potentially higher returns with commensurate risk.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

2. DEPOSIT AND INVESTMENT RISK, Continued

As of June 30, 2017 and 2016, PENNVEST's investments, excluding securities lending balances (see below), held in the Commonwealth investment pools, were \$1,372,184 and \$1,159,812, respectively.

As of June 30, 2017 and 2016, PENNVEST also had bank balances of cash and cash equivalents in the amount of \$22,038 and \$27,128, respectively. In 2016 PENNVEST transferred its funds from Bank of New York to Zion Bank. These balances were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the PENNVEST's name.

Securities Lending Program

The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury Department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity securities and United States Treasury and foreign debt obligations. For securities lent which are not denominated in United States dollars or whose primary trading market is located outside the United States, the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, United States Treasury, and corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration – usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with cash collateral.

The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

2. DEPOSIT AND INVESTMENT RISK, Continued

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2017, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amounts of the loans that could be made.

As of June 30, 2017 and 2016 there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was not less than the fair value of the securities lent. As of June 30, 2017 and 2016, PENNVEST's portion of securities lending collateral within the Commonwealth Investment Pool was \$39,454 and \$24,680, respectively.

3. FAIR VALUE MEASUREMENTS

PENNVEST categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. PENNVEST has the following recurring fair value measurements:

- Level 2 - Commonwealth Investment Program Pool 99 ("Pool 99") of \$247,123 and \$228,100 as of June 30, 2017 and 2016, respectively, are valued using a share-based valuation structure (net asset value). Pool 99 seeks to maintain a stable net asset value per share of \$1. Pool 99 performance is benchmarked against the yield on three-month United States Treasury Bills.
- Level 2 - Commonwealth Investment Program Pool 198 ("Pool 198") of \$1,125,061 and \$931,712 as of June 30, 2017 and 2016, respectively, are valued using a share-based valuation structure (net asset value). Pool 198 is benchmarked to a blended index of Russell 3000 and the Barclays Aggregate Fixed Income Index weighting 25% and 75%, respectively.

4. LOANS RECEIVABLE

PENNVEST has loans outstanding throughout the Commonwealth. The eleven largest loans amount to 12%, of gross loans receivable at June 30, 2017 and 2016. The majority of loans are disbursed to municipal governments of the Commonwealth and are collateralized by a pledge of the general taxing powers of the municipal governments or the revenue stream generated by the municipal governments.

PENNVEST currently provides loans for projects which are expected to lead to an effective solution to problems experienced with the drinking water, wastewater treatment, or storm water systems. The term of loans is normally between 20 and 30 years. The minimum interest rate on a loan is 1.00%. Detailed guidelines are established in the PENNVEST Act for the maximum interest rate. The actual interest rates ranged from 1.00% to 4.19% and 1.00% to 4.17% at June 30, 2017 and 2016, respectively.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

4. LOANS RECEIVABLE, Continued

At June 30, 2017 and 2016, PENNVEST had approved approximately \$512,000 and \$487,000, respectively, of loan funds that had not yet been disbursed. The monies needed to fund these loans will be generated from contributions by the federal government or the Commonwealth of Pennsylvania, revenue bonds, and principal repayments on existing loans.

Loans receivable at June 30 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------|---------------------|---------------------|
| Loans receivable, gross | <u>\$ 2,545,290</u> | <u>\$ 2,610,726</u> |
| Displayed as: | | |
| Current portion | \$ 164,208 | \$ 164,989 |
| Noncurrent portion | <u>2,381,082</u> | <u>2,445,737</u> |
| Total | <u>\$ 2,545,290</u> | <u>\$ 2,610,726</u> |

5. ALLOWANCE FOR LOAN LOSSES

Changes in allowance for loan losses during years ended June 30 are as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|------------------|------------------|
| Balance, beginning of year | \$ 40,826 | \$ 53,488 |
| Recovery of loan losses | (716) | (12,661) |
| Charge-offs | <u>-</u> | <u>(1)</u> |
| Balance, end of year | <u>\$ 40,110</u> | <u>\$ 40,826</u> |

6. SHORT-TERM OBLIGATIONS

In October 2016, PENNVEST issued short term obligations to finance the issuance of loans to program participants. These obligations are issued in the form of bonds, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2017, PENNVEST issued two of these bonds in the aggregate principal amount of \$10,005. Interest rates on these bonds ranged from .85% to .91% with no maturity being greater than 120 days. As of June 30, 2017, bonds remaining outstanding were:

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

6. SHORT-TERM OBLIGATIONS, Continued

| Series | Beginning Balance at July 1, 2016 | Additions | Reductions | Ending Balance at June 30, 2017 |
|-----------------------|--------------------------------------|-----------|------------|------------------------------------|
| 2016 Commercial Paper | \$ - | \$ 10,005 | \$ - | \$ 10,005 |

7. REVENUE BONDS PAYABLE

In June 2015, PENNVEST issued Revenue Bonds Series 2015A in the amount of \$65,000. The Bonds were issued at a premium of \$8,257. The proceeds of the bonds were used to pay at maturity on July 1, 2015 the aggregate principal amount of PENNVEST's Tax-Exempt Commercial Paper Revenue Notes, Series 2010A, plus accrued interest, and pay the costs of issuing the 2015 Bonds.

Changes in revenue bonds payable for the fiscal years ended June 30, 2017 and 2016 are as follows:

| Series | Beginning Balance at July 1, 2016 | Additions | Reductions | Ending Balance at June 30, 2017 | Amounts Due within One Year |
|---------------------|--------------------------------------|-----------|------------|------------------------------------|--------------------------------|
| 2015A Revenue Bonds | \$ 63,210 | \$ - | \$ 2,131 | \$ 61,079 | \$ 2,240 |
| Bond Premium | 7,842 | - | 415 | 7,427 | - |
| Total | \$ 71,052 | \$ - | \$ 2,546 | \$ 68,506 | \$ 2,240 |

| Series | Beginning Balance at July 1, 2015 | Additions | Reductions | Ending Balance at June 30, 2016 | Amounts Due within One Year |
|---------------------|--------------------------------------|-----------|------------|------------------------------------|--------------------------------|
| 2015A Revenue Bonds | \$ 65,000 | \$ - | \$ 1,790 | \$ 63,210 | \$ 2,130 |
| Bond Premium | 8,257 | - | 415 | 7,842 | - |
| Total principal | \$ 73,257 | \$ - | \$ 2,205 | \$ 71,052 | \$ 2,130 |

Information regarding revenue bonds issued is presented below:

| Year of Issue | Amount of Original Issue | Purpose |
|------------------|-----------------------------|---|
| 2015A | \$ 65,000 | Pay at maturity on July 1, 2015 the Series 2010A Commercial Paper Revenue Notes, and pay debt issuance costs. |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

7. REVENUE BONDS PAYABLE, Continued

Revenue Bonds payable as of June 30 are as follows:

| Series | Maturity | Interest Rate | 2017 Principal Balance | 2016 Principal Balance |
|-------------------------------|-------------------|----------------|------------------------------|------------------------------|
| Series of 2015A Revenue Bonds | 2018 through 2035 | 3.38% to 5.00% | \$ 61,079 | \$ 63,210 |
| Total Principal | | | 61,079 | 63,210 |
| Add: Unamortized bond premium | | | 7,427 | 7,842 |
| Less: Current portion | | | <u>(2,240)</u> | <u>(2,130)</u> |
| Noncurrent | | | <u>\$ 66,266</u> | <u>\$ 68,922</u> |

A summary of debt service requirements (payable semi-annually on November 15 and May 15) at June 30, 2017 are as follows:

| Ending | Principal | Interest | Total |
|-----------|------------------|------------------|------------------|
| 2018 | \$ 2,240 | \$ 2,813 | \$ 5,053 |
| 2019 | 2,350 | 2,701 | 5,051 |
| 2020 | 2,470 | 2,584 | 5,054 |
| 2021 | 2,590 | 2,460 | 5,050 |
| 2022 | 2,720 | 2,330 | 5,050 |
| 2023-2027 | 15,755 | 8,376 | 24,131 |
| 2028-2032 | 19,375 | 5,301 | 24,676 |
| 2033-2035 | <u>13,579</u> | <u>1,101</u> | <u>14,680</u> |
| | <u>\$ 61,079</u> | <u>\$ 27,666</u> | <u>\$ 88,745</u> |

Under the terms of the debt issue described above, PENNVEST is required to maintain certain balances in restricted trust accounts, make timely payments to the trustee accounts, and pledge loans that provide cash flow necessary to service the debt.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

8. DUE TO THE COMMONWEALTH OF PENNSYLVANIA

In April 2013, a Commonwealth of Pennsylvania bond issue was closed in which \$90,000 of bonds were issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$102,677, including a premium of \$12,677. The net proceeds received by PENNVEST will be repaid quarterly on January 1, April 1, July 1, and October 1, to the Commonwealth over a 20-year term with a 1% interest rate.

In October 2011, a Commonwealth of Pennsylvania bond issue was closed in which \$46,000 of bonds were issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$51,826, including a premium of \$5,826. The net proceeds received by PENNVEST will be repaid quarterly on February 1, May 1, August 1, and November 1 to the Commonwealth over a 20-year term with a 1% interest rate.

In June 2007, a Commonwealth of Pennsylvania bond issue was closed in which \$15,000 of bonds were issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$14,764, including a discount of \$196 and underwriters insurance costs of \$40. The net proceeds received by PENNVEST will be repaid semi-annually on May 1, and November 1 to the Commonwealth over a 20-year term with a 1% interest rate.

In December 2006, a Commonwealth of Pennsylvania bond issue was closed in which \$50,000 of bonds were issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$52,877, including a premium of \$2,937 and underwriters insurance costs of \$60. The net proceeds received by PENNVEST will be repaid quarterly on February 1, May 1, August 1 and November 1 to the Commonwealth over a 20-year term with a 1% interest rate.

In December 2005, a Commonwealth of Pennsylvania bond issue was closed in which \$50,000 of bonds were issued for PENNVEST loans under the 1988 and 1992 Referendums. Net Proceeds from the bonds were \$53,334, including a premium of \$3,413 and underwriters insurance costs of \$79. Of the net proceeds received by PENNVEST, \$24,727 was a contribution of capital that does not have to be repaid and \$28,607 must be repaid quarterly on February 1, May 1, August 1, and November 1 to the Commonwealth over a 20-year term with a 1% interest rate.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

8. DUE TO THE COMMONWEALTH OF PENNSYLVANIA, Continued

A summary of the required payments at June 30, 2017 are as follows:

| <u>Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|------------------|-------------------|
| 2018 | \$ 12,126 | \$ 1,727 | \$ 13,853 |
| 2019 | 12,248 | 1,605 | 13,853 |
| 2020 | 12,371 | 1,482 | 13,853 |
| 2021 | 12,495 | 1,358 | 13,853 |
| 2022 | 12,620 | 1,233 | 13,853 |
| 2023-2027 | 64,237 | 4,238 | 68,475 |
| 2028-2032 | 42,696 | 1,517 | 44,213 |
| 2033-2034 | 8,432 | 74 | 8,506 |
| | <u>\$ 177,225</u> | <u>\$ 13,234</u> | <u>\$ 190,459</u> |

9. CAPITAL CONTRIBUTIONS

The Commonwealth of Pennsylvania has authorized the issuance of \$1,430,000 of general obligation bonds and appropriated the proceeds to PENNVEST for the improvement of water and sewer systems in the Commonwealth. Proceeds include \$230,256 approved by the electorate in 1981, \$300,000 approved by the electorate in 1988, \$350,000 approved by the electorate in 1992, \$150,000 under the provisions of P.L. 343 No. 176 as authorized by the PENNVEST Act of 1988, and \$400,000 approved by the electorate in 2008. PENNVEST is authorized to utilize the proceeds for loans to borrowers. All but \$300,000 of the proceeds is considered to be revolving, as such, the principal and interest received on the loans are not required to be repaid to the Commonwealth. The balance of the proceeds, also used for loans to borrowers, ultimately received from the bond issues will require repayment as described in Note 8.

PENNVEST has also received approval for \$1,479,560 and \$570,124 in Federal loan funds for water pollution control and drinking water, respectively, at June 30, 2017. Of the \$1,479,560 and \$570,124 approved, \$1,479,560 and \$564,117, respectively, have been received as of June 30, 2017. For the period July 1, 2016 through June 30, 2017, \$53,390 and \$28,055 of Federal funds were received for water pollution control and drinking water, respectively. The State match for water pollution control and drinking water programs for the period July 1, 2016 through June 30, 2017, was \$10,585 and \$1,591, respectively. These funds have or will be utilized to make loans and the proceeds from repayments can be utilized to make new loans in the future.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

9. CAPITAL CONTRIBUTIONS, Continued

For the period July 1, 2015 through June 30, 2016, \$48,749 and \$24,715 of Federal funds were received for water pollution control and drinking water, respectively. The State match for water pollution control and drinking water programs for the period July 1, 2015 through June 30, 2016, was \$9,457 and \$4,102, respectively.

The required cumulative State match for the disbursed Federal loan funds for water pollution control and drinking water at June 30, 2017, was \$295,914 and \$109,892, respectively. As of June 30, 2017, \$298,156 and \$114,043 was the cumulative State match on disbursed loans for water pollution control and drinking water, respectively. All State match must be funded by the end of the award period.

The required cumulative State match for the disbursed Federal loan funds for water pollution control and drinking water at June 30, 2016, was \$285,329 and \$108,301, respectively. As of June 30, 2016, \$287,554 and \$111,151 was the cumulative State match on disbursed loans for water pollution control and drinking water, respectively.

PENNVEST has been authorized by the PENNVEST Act to make grants to participants in the loan programs, if deemed necessary, to financially assist the community. As of June 30, 2017 and 2016, PENNVEST has authorized grant commitments of \$47,518 and \$48,349, respectively, remaining.

For the years ended June 30, 2017 and 2016, capital contributions were \$71,263 and \$71,334, respectively. State and federal funded grants and principal forgiveness to program participants of \$52,418 and \$50,061 are reported as operating expenses, for the years ended June 30, 2017 and 2016, respectively.

10. RELATED PARTY TRANSACTIONS

PENNVEST contracts for services necessary to carry out its operations from various Commonwealth of Pennsylvania departments and agencies. PENNVEST paid the following departments and agencies for accounting services and loan project technical assistance during the fiscal year ended June 30:

| | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Office of Comptroller Operations | \$ 155 | \$ 154 |
| Department of Environmental Protection | 1,281 | 1,352 |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

11. LITIGATION

PENNVEST is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on PENNVEST's financial position.

12. RETIREMENT BENEFITS

General Information about the Pension Plan

Plan Description

Substantially all employees of PENNVEST participate in the Pennsylvania State Employees' Retirement System ("SERS"), a cost-sharing multiple-employer defined benefit pension plan established by the Commonwealth to provide pension benefits for employees of State government and certain independent agencies. Membership in SERS is mandatory for most PENNVEST (and other State) employees. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. SERS issues a publicly available financial report that can be obtained at www.sers.pa.gov.

Benefits Provided

SERS provides retirement, death, and disability benefits. Member retirement benefits are determined by taking years of credited service, multiplied by final average salary, multiplied by 2%, and multiplied by class of service multiplier. PENNVEST employees participate in one of the following classes of service categories: Class A, Class AA, Class A-3 or Class A-4. According to the State Employees' Retirement Code ("SERC"), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, PA Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 14/15 was 4.5% and will remain at that rate until no longer needed.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

Contributions to the pension plan from PENNVEST were \$636 and \$536 for the fiscal years ended June 30, 2017 and 2016, respectively.

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

At June 30, 2017 and 2016, PENNVEST reported a liability of \$6,891 and \$6,519 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PENNVEST's proportion of the net pension liability was based on a projection of PENNVEST's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. At December 31, 2016 and 2015, PENNVEST's proportion was 0.036%.

For the fiscal year ended June 30, 2017 and 2016, PENNVEST recognized pension expense of \$1,078 and \$946. At June 30, 2017 and 2016, PENNVEST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|--|-----------------------------------|-----------------|----------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Differences between expected and actual experience | \$ 99 | \$ 132 | \$ 154 | \$ - |
| Net difference between projected and actual investment earnings on pension plan investments | 579 | 664 | - | - |
| Changes in proportion | 243 | 330 | 9 | - |
| Changes in assumptions | 421 | 194 | - | - |
| Differences between PENNVEST contributions and proportionate share of contribution | - | - | 15 | 10 |
| PENNVEST contributions subsequent to measurement date | 343 | 267 | - | - |
| Total | <u>\$ 1,685</u> | <u>\$ 1,587</u> | <u>\$ 178</u> | <u>\$ 10</u> |

The \$343 and \$267 reported as deferred outflows of resources related to pension resulting from PENNVEST contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending June 30: | |
|----------------------|--------|
| 2018 | \$ 385 |
| 2019 | 385 |
| 2020 | 322 |
| 2021 | 67 |
| 2022 | 5 |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

Actuarial Assumptions

The following methods and assumptions were used in the December 31, 2016 and 2015 actuarial valuations. These methods and assumptions were applied to all periods included in the measurement:

| 2016 | |
|-----------------------------------|--|
| Investment rate of return | 7.25% net of expenses including inflation. |
| Projected salary increases | Average of 5.60% with range of 3.70% - 8.90% including inflation. |
| Inflation | 2.60% |
| Mortality rate | Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement. |
| Cost of living adjustments (COLA) | Ad hoc and are not considered to be substantively automatic. |

| 2015 | |
|-----------------------------------|--|
| Investment rate of return | 7.50% net of expenses including inflation. |
| Projected salary increases | Average of 5.70% with range of 3.85% - 9.05% including inflation. |
| Inflation | 2.75% |
| Mortality rate | Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement. |
| Cost of living adjustments (COLA) | Ad hoc and are not considered to be substantively automatic. |

Some of the methods and assumptions mentioned above are based on the 18th Investigation of Actuarial Experience, which was published in March 2016, and analyzed experience from 2011 through 2015. The Commonwealth's actuary made recommendations with respect to the actuarial assumptions and methods based on their analysis.

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 and 2015 are summarized in the following table:

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

| Asset Class | December 31, | | | |
|-------------------------|-------------------|-----------------------------------|-------------------|-----------------------------------|
| | 2016 | | 2015 | |
| | Target Allocation | Long-term Expected Rate of Return | Target Allocation | Long-term Expected Rate of Return |
| Private Equity | 16% | 8.00% | 0% | 0% |
| Global Public Equity | 43% | 5.30% | 40% | 5.40% |
| Real Estate | 12% | 5.44% | 17% | 4.95% |
| Hedge Funds | 12% | 4.75% | 0% | 0% |
| Fixed Income | 14% | 1.63% | 15% | 1.50% |
| Cash | 3% | (0.25)% | 0% | 0% |
| Alternative Investments | 0% | 0% | 15% | 8.50% |
| Diversifying Assets | 0% | 0% | 10% | 5.00% |
| Liquidity Reserve | 0% | 0% | 3% | 0.00% |
| Total | 100% | | 100% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.50% for 2016 and 2015, respectively, actuarial valuations. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on the assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of PENNVEST's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The following schedule presents PENNVEST's proportionate share of the 2016 and 2015 net pension liability calculated using the discount rate of 7.25% and 7.50%, respectively. It also shows what PENNVEST's proportionate share of the net pension 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:

| | 1% Decrease 6.25% | Current Discount rate 7.25% | 1% Increase 8.25% |
|--|----------------------|--------------------------------|----------------------|
| PENNVEST'S share of the net Pension liability as of the 12-31-16 measurement date \$ | \$ 8,528 | \$ 6,891 | \$ 5,489 |
| | 1% Decrease 6.50% | Current Discount rate 7.50% | 1% Increase 8.50% |
| PENNVEST'S share of the net Pension liability as of the 12-31-15 measurement date \$ | \$ 8,098 | \$ 6,519 | \$ 5,165 |

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Concluded
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

13. SUBSEQUENT EVENTS

PENNVEST has evaluated subsequent events through October 27, 2017, the date which the financial report was available to be issued.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 SCHEDULES OF PENNVEST'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM
 LAST 10 FISCAL YEARS*
 (In Thousands Except for Percentages)

| | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|
| PENNVEST's proportion of the net pension liability | 0.03577823% | 0.03585011% | 0.03474765% |
| PENNVEST's proportionate share of the net pension liability | \$ 6,891 | \$ 6,519 | \$ 5,163 |
| PENNVEST's covered-employee payroll | \$ 2,125 | \$ 2,191 | \$ 2,072 |
| PENNVEST'S proportionate share of the net pension liability as a percentage of its covered-employee payroll | 324.28% | 297.54% | 249.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.80% | 58.90% | 64.80% |

* The amounts presented for the fiscal year were determined as of the calendar year-end (12-31) that occurred within each fiscal year. PENNVEST adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only three years are presented in the above schedule.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 SCHEDULES OF PENNVEST'S CONTRIBUTIONS
 PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM
 PRIOR 10 FISCAL YEARS*
 (In Thousands Except for Percentages)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|--------------|
| Contractually required contribution | \$ 560 | \$ 537 | \$ 448 |
| Contributions in relation to the contractually required contribution | <u>(560)</u> | <u>(537)</u> | <u>(448)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| PENNVEST's covered-employee payroll | 2,125 | 2,191 | 2,072 |
| Contributions as a percentage of covered-employee payroll | 26.35% | 24.51% | 21.62% |

* PENNVEST adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only three years are presented in the above schedule.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF NET POSITION
 JUNE 30, 2017 AND 2016
 (In Thousands)

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Assets: | | |
| Restricted investment - securities lending collateral | \$ 23,140 | \$ 14,234 |
| Investments | 831,132 | 659,170 |
| Loans receivable, gross | 1,344,942 | 1,402,331 |
| Allowance for loan losses | (11,252) | (21,903) |
| Accrued interest receivable | 1,909 | 1,700 |
| Due from the Commonwealth of Pennsylvania | 83 | 52 |
| Due from the federal government | <u>499</u> | <u>6,042</u> |
| Total Assets | <u>2,190,453</u> | <u>2,061,626</u> |
| Liabilities: | | |
| Accounts payable | 2,049 | 279 |
| Due to the Commonwealth of Pennsylvania | 260 | 189 |
| Unearned revenue | 22 | 22 |
| Securities lending obligations | <u>23,140</u> | <u>14,234</u> |
| Total Liabilities | <u>25,471</u> | <u>14,724</u> |
| Net Position: | | |
| Restricted for federal clean water state revolving loan fund | <u><u>\$ 2,164,982</u></u> | <u><u>\$ 2,046,902</u></u> |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | 2017 | 2016 |
|---|--------------|--------------|
| Operating Revenues: | | |
| Interest on loans receivable | \$ 17,988 | \$ 18,032 |
| Federal grants | - | 56 |
| Other | (7) | (17) |
| | 17,981 | 18,071 |
| Operating Revenues Before Provision for Loan Loss | | |
| Recovery for loan losses | 10,652 | 12,932 |
| | | |
| Net Operating Revenues | 28,633 | 31,003 |
| Operating Expenses: | | |
| Administration | 2,779 | 3,605 |
| Other state and federal "principal forgiveness" to program participants | 10,700 | 9,521 |
| | 13,479 | 13,126 |
| Total Operating Expenses | | |
| | 15,154 | 17,877 |
| Operating Income | | |
| Nonoperating Revenues: | | |
| Investment income | 40,444 | 15,666 |
| Total Nonoperating Revenues | 40,444 | 15,666 |
| | | |
| Income before Capital Contributions | 55,598 | 33,543 |
| Capital contributions: | | |
| Other federal and state | 62,482 | 64,712 |
| | 62,482 | 64,712 |
| Total Capital Contributions | | |
| Increase In Net Position | 118,080 | 98,255 |
| Net Position - Beginning of Year | 2,046,902 | 1,948,647 |
| Net Position - End of Year | \$ 2,164,982 | \$ 2,046,902 |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | 2017 | 2016 |
|---|------------------|--------------------|
| Cash Flows From Operating Activities: | | |
| Loan receipts from borrowers | \$ 136,115 | \$ 96,230 |
| Loan disbursements to borrowers | (60,946) | (117,949) |
| Cash paid to vendors | (969) | (3,337) |
| Other State and Federal "principal forgiveness" to program participants | (10,700) | (9,521) |
| Other receipts | (7) | (17) |
| Federal grant receipts | 5,543 | (5,986) |
| Net Cash Provided By/(Used In) Operating Activities | <u>69,036</u> | <u>(40,580)</u> |
| Cash Flows From Capital Financing Activities: | | |
| Other federal and state grants received | <u>62,482</u> | <u>64,712</u> |
| Cash Provided By Capital Financing Activities | <u>62,482</u> | <u>64,712</u> |
| Cash Flows from Investing Activities: | | |
| Receipts from depositories | 40,444 | 15,666 |
| Net purchases of State Treasury Common Investment Pool | <u>(171,962)</u> | <u>(39,798)</u> |
| Cash Used In Investing Activities | <u>(131,518)</u> | <u>(24,132)</u> |
| Increase In Cash And Cash Equivalents | <u>-</u> | <u>-</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>-</u> | <u>-</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of Operating Income to Net Cash Provided By/(Used In) Operating Activities: | | |
| Operating income | \$ 15,154 | \$ 17,877 |
| Adjustments to reconcile operating income to net cash used in operating activities: | | |
| Loan receivable, gross | 57,390 | (39,829) |
| Recovery of loan losses | (10,652) | (12,932) |
| Accrued interest | (209) | 78 |
| Due from/to the Commonwealth of Pennsylvania | 40 | (10) |
| Due from the federal government | 5,543 | (6,042) |
| Unearned revenue | - | 22 |
| Accounts payable and accrued liabilities | 1,770 | 256 |
| Total adjustments | <u>53,882</u> | <u>(58,457)</u> |
| Net Cash Provided By/(Used In) Operating Activities | <u>\$ 69,036</u> | <u>\$ (40,580)</u> |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF NET POSITION
 JUNE 30, 2017 AND 2016
 (In Thousands)

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| Assets: | | |
| Restricted investment - securities lending collateral | \$ 6,300 | \$ 3,797 |
| Investments | 206,444 | 184,709 |
| Loans receivable, gross | 484,461 | 478,876 |
| Allowance for loan losses | (2,521) | (7,488) |
| Accrued interest receivable | 733 | 687 |
| Due from federal government | <u>719</u> | <u>1,784</u> |
| Total Assets | <u>696,136</u> | <u>662,365</u> |
| Liabilities: | | |
| Vouchers payable | 719 | 1,787 |
| Securities lending obligations | <u>6,300</u> | <u>3,797</u> |
| Total Liabilities | <u>7,019</u> | <u>5,584</u> |
| Net Position: | | |
| Restricted for federal drinking water state revolving loan fund | <u><u>\$ 689,117</u></u> | <u><u>\$ 656,781</u></u> |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Operating Revenues: | | |
| Interest on loans receivable | \$ 8,285 | \$ 8,135 |
| Federal grants | <u>8,650</u> | <u>9,855</u> |
| Operating Revenues Before Provision for Loan Loss | 16,935 | 17,990 |
| (Recovery of)/provision for loan losses | <u>(4,967)</u> | <u>2,760</u> |
| Net Operating Revenues | <u>21,902</u> | <u>15,230</u> |
| Operating Expenses: | | |
| Administration | 8,647 | 10,031 |
| Other state and federal "principal forgiveness" to program participants | <u>12,396</u> | <u>7,804</u> |
| Total Operating Expenses | <u>21,043</u> | <u>17,835</u> |
| Operating Income (Loss) | <u>859</u> | <u>(2,605)</u> |
| Nonoperating Revenues: | | |
| Investment income | <u>11,691</u> | <u>4,319</u> |
| Total Nonoperating Revenues | <u>11,691</u> | <u>4,319</u> |
| Income before Capital Contributions | <u>12,550</u> | <u>1,714</u> |
| Capital Contributions: | | |
| Other federal and state | <u>19,786</u> | <u>20,181</u> |
| Total Capital Contributions | <u>19,786</u> | <u>20,181</u> |
| Increase In Net Position | 32,336 | 21,895 |
| Net Position - Beginning of Year | <u>656,781</u> | <u>634,886</u> |
| Net Position - End of Year | <u>\$ 689,117</u> | <u>\$ 656,781</u> |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ANNUAL REPORT FOR 2016 - 2017

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (In Thousands)

| | 2017 | 2016 |
|---|------------|------------|
| Cash Flows From Operating Activities: | | |
| Loan receipts from borrowers | \$ 42,819 | \$ 41,035 |
| Loan disbursements to borrowers | (40,165) | (41,730) |
| Cash paid to vendors | (9,715) | (9,980) |
| Other state and federal "principal forgiveness" to program participants | (12,396) | (7,804) |
| Federal grant receipts | 9,715 | 9,246 |
| Net Cash Used In Operating Activities | (9,742) | (9,233) |
| Cash Flows From Capital Financing Activities: | | |
| Other federal and state grants received | 19,786 | 20,181 |
| Cash Provided By Capital Financing Activities | 19,786 | 20,181 |
| Cash Flows From Investing Activities: | | |
| Receipts from depositories | 11,691 | 4,319 |
| Net purchases of State Treasury Common Investment Pool | (21,735) | (15,267) |
| Cash Used In Investing Activities | (10,044) | (10,948) |
| Increase In Cash And Cash Equivalents | - | - |
| Cash and Cash Equivalents, Beginning of Year | - | - |
| Cash and Cash Equivalents, End of Year | \$ - | \$ - |
| Reconciliation of Operating Income to Net Cash Used In Operating Activities: | | |
| Operating loss | \$ 859 | \$ (2,605) |
| Adjustments to reconcile operating income to net cash used in operating activities: | | |
| Loan receivable, gross | (5,585) | (8,823) |
| (Recovery of)/provision for loan losses | (4,967) | 2,760 |
| Interest receivable on loans | (46) | (7) |
| Due from the federal government | 1,065 | (609) |
| Accounts payable and accrued liabilities | (1,068) | 51 |
| Total adjustments | (10,601) | (6,628) |
| Net Cash Used In Operating Activities | \$ (9,742) | \$ (9,233) |

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FUND SCHEDULES
YEARS ENDED JUNE 30, 2017 and 2016
(In Thousands)

1. GENERAL

The accompanying schedules present the activity for two of the five funds maintained by PENNVEST: the Federal Clean Water State Revolving Loan Fund which accounts for the financial activity resulting from capitalization grants received from the federal government under the State Revolving Loan Funds Program; and the Federal Drinking Water State Revolving Loan Fund which accounts for the financial activity resulting from grants received from the federal government under the State Revolving Loan Funds Program. The activity resulting from the Commonwealth of Pennsylvania capital contributed to PENNVEST, and the 2010 and 1990 trust funds have not been presented in the schedules except for the transactions with these two funds. The schedules have been presented to comply with contractual arrangements with the funding sources.

2. BASIS OF ACCOUNTING

The accompanying schedules are presented using the accrual basis of accounting, which is described in Note 1 of PENNVEST's financial statements.

3. TRANSFER OF LOANS BETWEEN FUNDS

When PENNVEST transfers a loan receivable between the funds identified above, the loan transfer is recorded in contributed capital and the provision for credit losses related to the transferred loans is reflected as an adjustment to net position.

4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was \$11,252 and \$2,521 for the Federal Clean Water State Revolving Loan Fund, and the Federal Drinking Water State Loan Fund, respectively, at June 30, 2017 and \$21,903, and \$7,488, respectively, at June 30, 2016.

5. COMMITMENTS & CONTINGENT LIABILITIES

At June 30, 2017, PENNVEST had approved approximately \$334,362 and \$76,919, respectively, of Federal Clean Water and Federal Drinking Water loans that had not yet been disbursed. The monies needed to fund these loans will be generated from contributions by the federal government or the Commonwealth of Pennsylvania, revenue bonds, and principal repayments on existing loans.

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although PENNVEST expects such amounts, if any, to be immaterial.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 SCHEDULES OF DELINQUENT LOANS
 CLEAN WATER PROGRAM ON-LOT LOANS
 FEDERAL CLEAN WATER PROGRAM
 (UNAUDITED)
 (In Thousands)

| June 30, 2017 | | | |
|--|--------------------------|------------------------------|--------------------------------------|
| Federal Clean Water Program On-Lot Loans | | | |
| <u>Loan Number</u> | <u>Delinquent Amount</u> | <u>Original Loan Balance</u> | <u>Loan Balance at June 30, 2017</u> |
| 1839422 | \$ 197 | \$ 19,900 | \$ 11,773 |
| 2807154 | 183 | 14,443 | 11,553 |
| | <u>\$ 380</u> | <u>\$ 34,343</u> | <u>\$ 23,326</u> |

| June 30, 2016 | | | |
|--|--------------------------|------------------------------|--------------------------------------|
| Federal Clean Water Program On-Lot Loans | | | |
| <u>Loan Number</u> | <u>Delinquent Amount</u> | <u>Original Loan Balance</u> | <u>Loan Balance at June 30, 2016</u> |
| 1839422 | \$ 98 | \$ 19,900 | \$ 12,668 |
| 2200079 | 57 | 11,440 | 8,571 |
| 1209337 | 568 | 14,093 | 3,752 |
| | <u>\$ 723</u> | <u>\$ 45,433</u> | <u>\$ 24,991</u> |



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*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Pennsylvania Infrastructure Investment Authority

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 Pennsylvania Infrastructure Investment Authority ("PENNVEST"), a component unit of the Commonwealth of Pennsylvania as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise PENNVEST's basic financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PENNVEST's internal control over financial reporting (internal control) to determine 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 PENNVEST's internal control. Accordingly, we do not express an opinion on the effectiveness of PENNVEST'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PENNVEST'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 determination of financial statement amounts. 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 the 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.

Milligan & Company, LLC

October 27, 2017
Philadelphia, PA





PENNVEST

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

Pennsylvania Infrastructure Investment Authority

Forum Building | Room 434

607 South Drive

Harrisburg, Pennsylvania 17120

www.pennvest.pa.gov