



(Component Unit of the
Commonwealth of Pennsylvania)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2019 and 2018



PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 10
Basic Financial Statements:	
Statements of Net Position	11-12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14 - 15
Notes to Financial Statements	16 - 37
Required Supplementary Information:	
Schedules of PENNVEST's Proportionate Share of the Net Pension Liability	38
Schedules of PENNVEST's Contributions – Pension	39
Schedules of PENNVEST's Proportionate Share of the Net OPEB Liability	40
Schedules of PENNVEST's Contribution - OPEB	41
Other Supplemental Information:	
Federal Clean Water State Revolving Loan Fund:	
Schedules of Net Position	42
Schedules of Revenues, Expenses, and Changes in Net Position	43
Schedules of Cash Flows	44
Federal Drinking Water State Revolving Loan Fund:	
Schedules of Net Position	45
Schedules of Revenues, Expenses, and Changes in Net Position	46
Schedules of Cash Flows	47
Notes to Fund Schedules	48
Schedules of Delinquent Loans	49
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>	50 - 51

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, 2019 and 2018, 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, 2019 and 2018, 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 10, the Schedules of PENNVEST's Proportionate Share of the Net Pension Liability on page 38, the Schedules of PENNVEST's Contributions – Pension on page 39, Schedules of PENNVEST's Proportionate Share of Net OPEB Liability on page 40, and Schedules of PENNVEST's Contribution – OPEB on page 41 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 Supplementary 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 42 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements or required supplementary information.

The Other Supplemental Information on pages 42 through 49 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplemental Information on pages 42 through 48 have 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 42 through 48 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedules of Delinquent Loans on page 49 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, for the year ended June 30, 2018, PENNVEST adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019, 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.

Mulligan & Company, LLC

October 29, 2019
Philadelphia, PA



PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

This section of Pennsylvania Infrastructure Investment Authority's ("PENNVEST" or "Program") 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, 2019. It is intended to be read in conjunction with the PENNVEST financial statements and accompanying notes, which follow this section.

FINANCIAL HIGHLIGHTS

In 2019, the Total Net Position increased by \$198.8 million. The increase was mainly as a result of Total Assets increasing by \$159.6 million and Total Liabilities decreasing by \$40.1 million. Total Assets increased primarily due to an increase in gross loan receivables (noncurrent) of \$74.8 million that was driven by increasing funding demand that resulted in an increase in the outstanding loan portfolio. There were also increases in cash and cash equivalents of approximately \$49.6 million, an increase in income from investments of approximately \$13.8 million and a decrease in allowance for loan losses of \$16.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis, financial statements, and 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 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 PENNVEST's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about investments, revenue bonds, and federal government obligations. 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.

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2019

FINANCIAL ANALYSIS, Continued

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, 2019 and 2018.

	Table 1 (In Thousands)	
	<u>Condensed Statements of Net Position</u>	
	<u>2019</u>	<u>2018</u>
Current Assets	\$ 1,839,878	\$ 1,756,147
Noncurrent Assets	2,461,786	2,385,903
Total Assets	<u>4,301,664</u>	<u>4,142,050</u>
Deferred Outflows	<u>1,868</u>	<u>1,178</u>
Total Assets and Deferred Outflows	<u>4,303,532</u>	<u>4,143,228</u>
Current Liabilities	63,139	82,314
Noncurrent Liabilities	264,187	285,144
Total Liabilities	<u>327,326</u>	<u>367,458</u>
Deferred Inflows	<u>2,786</u>	<u>1,167</u>
Total Liabilities and Deferred Inflows	<u>330,112</u>	<u>368,625</u>
Total Net Position	<u>\$ 3,973,420</u>	<u>\$ 3,774,603</u>

The above table provides several financial indicators that depict the fiscal health of PENNVEST. First, Total Net Position increased in 2019 by 5.3%. The Federal Clean Water State Revolving Fund ("CWSRF") has a significant impact on the Total Net Position line, as it represents 59.9% of the Total Net Position. This reflects the strength of the Federal Clean Water program.

Current Assets increased in 2019 by \$83.7 million or 4.8%. The increase in Current Assets was largely due to an increase in Cash and Cash Equivalents from the issuance of Commercial Paper of approximately \$40 million. The increase is also partly due to the expected receipt of \$15 million from the Commonwealth of Pennsylvania that was a noncurrent asset previously (as of June 30, 2018).

Noncurrent assets increased by \$75.9 million 3.2%. This increase is due to increases in the outstanding loan portfolio, which is driven by increased demand for funding over the past two years. 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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2019

FINANCIAL ANALYSIS, Continued

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 Assets total is reduced by the Allowance for Loan Losses which is \$28.9 million for the year ended June 30, 2019.

Current Liabilities decreased in 2019 by \$19.2 million or 23.3%; driven by payoff of outstanding commercial paper.

Noncurrent Liabilities decreased in 2019 by \$21.0 million or 7.3%. The decrease is primarily the result debt service payments on outstanding General Obligation bonds.

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, other federal and state funding (included in this line item are Marcellus Legacy Fund and Environmental Stewardship Fund monies), capital contributions from federal capitalization grants provided by the Environmental Protection Agency ("EPA") and reimbursement of allowable federal administrative expenses.

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

	2019	2018
Operating Revenues:		
Interest on loan receivables	\$ 37,594	\$ 36,407
Other federal and state	41,566	33,424
Total Operating Revenues	79,160	69,831
Recovery/(Provision) of loan losses	16,100	(4,870)
Net Operating Revenues	95,260	64,961
Operating Expenses:		
Administration	(15,835)	(15,075)
Grants/"principal forgiveness" to program participants	(54,874)	(51,938)
Total Operating Expenses	(70,709)	(67,013)
Nonoperating Revenues	87,382	43,169
Capital Contributions	86,884	84,508
Increase In Net Position	\$ 198,817	\$ 125,625

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2019

OPERATING REVENUES AND EXPENSES, Continued

The Operating Revenues (as shown in Table 2), in 2019 were driven by the Other Federal and State Operating Grants of \$41.6 million, and interest payments on loans of \$37.6 million.

The Total Operating Expenses (as shown in Table 2) increased by 5.5%, or \$3.7 million in 2019. Increases in the amount disbursed as Grant/"Principal Forgiveness" primarily accounted for this increase. These increases are a direct effect on how many applicants qualify for rate or Grant/"Principal Forgiveness" subsidy.

Table 3 examines the loan loss allowance for each of the loan portfolios of PENNVEST. 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>2019</u>	<u>2018</u>
CWSRF	\$ 17,103	\$ 16,384
DWSRF*	1,707	3,518
State and Revenue Bonds	<u>10,070</u>	<u>25,078</u>
Total Program	<u>\$ 28,880</u>	<u>\$ 44,980</u>

*Drinking Water State Revolving Fund

Table 4 depicts the PENNVEST loan portfolios, excluding On-Lot Loans, by risk code classification. Overall, the risk assessment of the loan portfolio remains good. The largest dollar change year over year occurred in the Non-Speculative project rating. This risk code increased by \$52.7 million and the total for this risk code represented \$1.750 billion and 65.8% of the portfolio.

Table 4 (In Thousands)
Loan Portfolio by Risk Code

<u>Risk Codes</u>	<u>2019</u>	<u>2018</u>
Speculative	\$ 840,745	\$ 806,924
Concern High Rate Impact	60,093	66,379
Concern Service User	9,009	10,659
Non-Speculative	<u>1,750,223</u>	<u>1,697,517</u>
Total Loan Portfolio	<u>\$ 2,660,070</u>	<u>\$ 2,581,479</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2019

REVENUES

As PENNVEST is a Revolving Loan Program, it is essential that loan repayments be made in a timely manner. Over 99.67% 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 must 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 \$109.2 million or 51.5% of the total collected. The CWSRF is a major portfolio in the PENNVEST program. Total loan receipts decreased by \$19.7 million from 2018, which is reflective of older projects being paid-in-full combined with lower than usual loan approvals during the prior few years.

Table 5 (In Thousands)
Loan Receipts from Customers

<u>Loan Receipts</u>	<u>2019</u>	<u>2018</u>
CWSRF Federal Loans	\$ 109,164	\$ 125,356
DWSRF Federal Loans	44,118	41,927
State and Revenue Bond Loans	58,684	64,426
Total	<u>\$ 211,966</u>	<u>\$ 231,709</u>

Table 6 is an illustration of the PENNVEST disbursements to customers. The total disbursement of \$255.0 million reflects an increase of \$24.9 million from 2018 or an increase of 10.8%. The CWSRF Federal disbursements were the primary driver of this increase, making up 76.6% of the Total Disbursements. The large increase in the CWSRF was heavily influenced by increasing applications over the past two years.

Table 6 (In Thousands)
Loan Disbursements to Customers

<u>Loan Disbursements</u>	<u>2019</u>	<u>2018</u>
CWSRF Federal Loans	\$ 195,321	\$ 154,194
DWSRF Federal Loans	37,403	37,897
State and Revenue Bond Loans	22,315	38,065
All Portfolios Disbursements	<u>\$ 255,039</u>	<u>\$ 230,156</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended June 30, 2019

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.

In 2018, PENNVEST issued Revenue Bonds Series 2018A, in the amount of \$50.0 million. The bonds were issued at a premium of \$8.4 million. The issuance was the first utilizing the Federal State Revolving Fund ("SRF") funds as collateral for the issuance.

At June 30, 2019, PENNVEST had \$116.9 million of revenue bond debt and \$30.1 million commercial paper debt outstanding. Revenue Bonds Payable decreased in 2019 by \$7.5 million from the previous year due to debt service. The following is a summary of Revenue Bond activity for the 2018-2019 fiscal year.

<u>Table 7 (In Thousands)</u>	
Outstanding debt July 1, 2018	\$ 174,609
Less: Principal payments	(26,691)
Net change in unamortized premium	<u>(1,071)</u>
Outstanding debt at June 30, 2019	<u><u>\$ 146,847</u></u>

See Notes 6 and 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 (state funded projects). This mechanism allows PENNVEST to better manage the cash flows so that funds on hand with the Commonwealth Treasurer can be invested for a longer term and a higher rate than would otherwise be the case.

PENNVEST entered into a Federal SRF Trust Indenture and First Supplemental Trust agreements and issued \$50 million in SRF Revenue Bonds in January 2018. These indentures allow for the issuance of revenue bonds, commercial paper, and implementation of a loan/bond guarantee program. It is cross-collateralized with both the CWSRF and DWSRF. In February 2019, PENNVEST issued Tax-Exempt Extendable Maturity Commercial Paper ("EMCP") Notes (Series 2019A) in an aggregate principal amount outstanding at any time up to \$75 million as an additional tool to leverage the SRF funds and support future needs of the program. Zion's Bank was selected as the Trustee.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Concluded
For the Year Ended June 30, 2019

FUTURE PROGRAMS UNDER DEVELOPMENT, Continued

Nutrient Trading

During FY 2018-2019 PENNVEST continued to track the Nutrient Subsidy Value for projects that may be able to create nutrient credits. PENNVEST may claim repayment of the subsidy value when the credits are sold or if credits are needed for the Trading Bank. Further, PENNVEST has a collateral interest in 2 projects. Department of Environmental Protection (DEP) continues to certify, verify and register nutrient credits.

Loan Guarantee Program

During 2018-2019 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.

Riparian Buffer Initiative

Projects are currently being installed with the first year approvals. Year 2 application cut off has resulted in considerably more applicants than available funds. The 2019-2020 fiscal year will bring the final series of approvals for this program. The expectation that we can collect business model related information in a few as three years after installation.

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 Steven Anspach, Executive Director of Financial Management, PENNVEST, 333 Market Street, 18th Floor, Harrisburg, PA 17101.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018
(In Thousands)

ASSETS

	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 184,104	\$ 134,470
Investment - securities lending collateral	8,249	8,936
Investments	1,457,063	1,443,216
Loans receivable, gross	169,404	163,965
Accrued interest receivable	5,868	5,424
Due from Commonwealth of Pennsylvania	15,190	136
Total Current Assets	1,839,878	1,756,147
Noncurrent Assets:		
Loans receivable, gross	2,490,666	2,415,883
Allowance for loan losses	(28,880)	(44,980)
Due from Commonwealth of Pennsylvania	-	15,000
Total Noncurrent Assets	2,461,786	2,385,903
Total Assets	4,301,664	4,142,050

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources:		
Pension	1,659	948
Other Post Employment Benefits (OPEB)	209	230
Total Deferred Outflows of Resources	1,868	1,178
Total Assets and Deferred Outflows of Resources	\$ 4,303,532	\$ 4,143,228

Continued

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF NET POSITION, Continued
JUNE 30, 2019 AND 2018
(In Thousands)

LIABILITIES

Current Liabilities:		
Accounts payable	\$ 1,862	\$ 1,034
Due to federal government	1,934	1,725
Due to Commonwealth of Pennsylvania	14,120	13,768
Securities lending obligation	8,249	8,936
Short-term obligations	30,123	50,371
Compensated absences	117	101
Current portion of net OPEB liability	84	119
Current portion of revenue bonds payable	6,650	6,260
Total Current Liabilities	63,139	82,314
Noncurrent Liabilities:		
Due to Commonwealth of Pennsylvania	140,480	152,851
Compensated absences	500	430
Noncurrent revenue bonds payable	110,074	117,978
Net pension liability	7,573	6,105
Net OPEB liability	5,560	7,780
Total Noncurrent Liabilities	264,187	285,144
Total Liabilities	327,326	367,458

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources:		
Pension	142	440
OPEB	2,644	727
Total Deferred Inflows of Resources	2,786	1,167
Total Liabilities and Deferred Inflows of Resources	330,112	368,625

NET POSITION

Restricted:		
Federal clean water revolving loan program	2,378,279	2,251,405
Federal drinking water revolving loan program	762,295	717,556
Total Restricted	3,140,574	2,968,961
Unrestricted	832,846	805,642
Total Net Position	\$ 3,973,420	\$ 3,774,603

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, 2019 AND 2018
(In Thousands)

	2019	2018
Operating Revenues:		
Interest on loans receivable	\$ 37,594	\$ 36,407
Federal and state grants	41,566	33,424
Operating Revenues before Recovery/(Provision) for Loan Losses	<u>79,160</u>	<u>69,831</u>
Recovery/(Provision) of loan losses	<u>16,100</u>	<u>(4,870)</u>
Net Operating Revenues	<u>95,260</u>	<u>64,961</u>
Operating Expenses:		
Administration	15,835	15,075
Grants/"principal forgiveness" to program participants	54,874	51,938
Total Operating Expenses	<u>70,709</u>	<u>67,013</u>
Operating Income (Loss)	<u>24,551</u>	<u>(2,052)</u>
Nonoperating Revenues/(Expenses):		
Investment income	94,641	47,529
Interest and amortization expense	(7,259)	(4,088)
Bond issuance costs	-	(272)
Total Nonoperating Revenues	<u>87,382</u>	<u>43,169</u>
Income before Capital Contributions	<u>111,933</u>	<u>41,117</u>
Capital Contributions:		
Other federal and state grants	86,884	84,508
Total Capital Contributions	<u>86,884</u>	<u>84,508</u>
Increase In Net Position	198,817	125,625
Net Position - Beginning of Year, before Restatement	3,774,603	3,656,019
Cumulative effect of change in accounting principle	-	(7,041)
Net Position - Beginning of Year, after Restatement	<u>3,774,603</u>	<u>3,648,978</u>
Net Position - End of Year	<u>\$ 3,973,420</u>	<u>\$ 3,774,603</u>

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	2018
Cash Flows from Operating Activities:		
Loan repayments from borrowers	\$ 211,966	\$ 231,709
Loan disbursements to borrowers	(255,039)	(230,156)
Payments for goods and services	(14,779)	(18,980)
Grants/"principal forgiveness" to program participants	(54,873)	(50,151)
Other federal and state receipts	41,775	36,346
	(70,950)	(31,232)
Net Cash Used In Operating Activities		
Cash Flows from Capital Financing Activities:		
Other federal and state capital contributions	86,884	84,508
Proceeds of short term obligations	30,123	40,366
Repayments of short term obligations	(50,371)	-
Repayment of bonds payable	(7,330)	(2,655)
Repayment of due to Commonwealth of Pennsylvania	(12,257)	(9,653)
Bond issuance costs	-	(272)
Proceeds from revenue bonds	-	58,387
Payment of interest on bonds payable	(7,259)	(4,088)
	39,790	166,593
Cash Provided By Capital Financing Activities		
Cash Flows from Investing Activities:		
Receipts from depositories	94,641	47,529
Net purchases of State Treasury Commonwealth Investment Pool	(13,847)	(71,032)
	80,794	(23,503)
Cash Provided By/(Used In) Investing Activities		
Increase In Cash and Cash Equivalents	49,634	111,858
Cash and Cash Equivalents, Beginning of Year	134,470	22,612
Cash and Cash Equivalents, End of Year	\$ 184,104	\$ 134,470

Continued
See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	2018
Reconciliation of Operating Income to Net Cash Used In		
Operating Activities:		
Operating income (loss)	\$ 24,551	\$ (2,052)
Adjustments to reconcile operating income (loss) to net cash (used in)/provided by operating activities:		
(Recovery)/Provision of loan losses	(16,100)	4,870
Cumulative effect of change in accounting principle	-	(7,041)
Changes in operating assets and liabilities:		
Loan receivable, gross	(80,222)	(34,558)
Accrued interest receivable	(444)	(296)
Due to federal government	209	2,943
Deferred outflow	(690)	507
Accounts payable	828	(2,477)
Accrued compensated absences	86	41
Unearned revenue	-	(21)
Net pension liability	1,468	(786)
Net OPEB liability	(2,255)	6,649
Deferred inflow	1,619	989
	(95,501)	(29,180)
Total adjustments		
Net Cash Used In Operating Activities	\$ (70,950)	\$ (31,232)

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(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 of thirteen members, administers the operations of PENNVEST. The Chairman of the governing body is the Governor or the Governor’s designee. 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 received for the purpose of providing grants or “principal forgiveness” to program participants. 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
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(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").

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
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(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 statement elements represent consumption/acquisition of net position that applies to future periods, and so will not be recognized as an outflow/inflow of resources until then. PENNVEST has two items that qualifies for reporting in this category: deferred outflows/inflows related to pension and other post-employment benefits.

Postemployment Benefits Other Than Pensions (“OPEB”)

For purposes of measuring the PENNVEST 's OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Commonwealth’s Retired Employees Health Plan (“REHP”) and additions to/deductions from the REHP 's fiduciary net position have been determined on the same basis as they are reported in the Commonwealth’s Comprehensive Annual Financial Report (“CAFR”). For this purpose, the REHP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior Period Adjustment

Effective July 1, 2017, PENNVEST implemented the Governmental Accounting Standards Board (GASB) Statement No. 75, “*Accounting, and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*”. The implementation of GASB 75 established new standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB. The implementation of GASB 75 resulted in a restatement of the previously reported GASB 45 OPEB liability, therefore, the Fund’s beginning Net Position has also been restated.

Changes as of June 30, 2018 were restated as follows:

Net Position, as previously reported at June 30, 2017	\$ 3,656,019
Cumulative effect of GASB 75 implementation	<u>(7,041)</u>
Net Position, as restated, at July 1, 2017	<u>\$ 3,648,978</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Pending Changes in Accounting Principles

GASB Statement No. 87, “*Leases*” was issued in June 2017, with an effective date for reporting periods beginning after December 15, 2019, earlier application is encouraged: This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. PENNVEST’s management is evaluating the impact of this statement on the financial statements.

GASB Statement No. 89, “*Accounting for Interest Cost Incurred Before the End of a Construction Period*” was issued in June 2018, with an effective date for reporting periods beginning after December 15, 2019, earlier application is encouraged: This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or Enterprise Fund. PENNVEST’s management is evaluating the impact of this statement on the financial statements.

Adopted Accounting Principle

GASB Statement No. 88, “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*” was issued in April 2018, with an effective date for reporting periods beginning after June 15, 2018, earlier application is encouraged: This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. It requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. PENNVEST’s adoption of this statement had no significant impact on the financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(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 full judgment and care under the prevailing circumstances. Persons of prudence, discretion, and intelligence familiar with such matters in regard to the permanent disposition of the funds need to consider the probable income to be derived therefrom, as well as the probable safety of the 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
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

2. DEPOSIT AND INVESTMENT RISK, Continued

As of June 30, 2019 and 2018, PENNVEST's investments, excluding securities lending balances (see below), held in the Commonwealth investment pools, were \$1,457,063 and \$1,443,216, respectively.

As of June 30, 2019 and 2018, PENNVEST also had bank balances of cash and cash equivalents in the amount of \$184,052 and \$133,880, respectively. 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.

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

2. DEPOSIT AND INVESTMENT RISK, Continued

Securities Lending Program, Continued

During the fiscal years ended June 30, 2019 and 2018, 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, 2019 and 2018 there was no Treasury Department or participant credit risk because the fair value of collateral received was not less than the fair value of the securities lent. As of June 30, 2019 and 2018, PENNVEST's portion of securities lending collateral within the Commonwealth Investment Pool was \$8,249 and \$8,936, 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. There were no Level 1 or Level 3 investments at June 30, 2019 and 2018.

PENNVEST has the following recurring fair value measurements:

- Level 2 - Commonwealth Investment Program Pool 99 ("Pool 99") of \$209,010 and \$274,762 as of June 30, 2019 and 2018, 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 Merrill Lynch three-month United States Treasury Bill Index.
- Level 2 – Commonwealth Investment Program Pool 198 ("Pool 198") of \$1,248,053 and \$1,168,454 as of June 30, 2019 and 2018, respectively, are valued using a share-based valuation structure (net asset value). Pool 198 is benchmarked to a blend of Standards and Poor's 500, Morgan Stanley Capital International All County World Index Ex-U.S., Barclays Capital U.S. Aggregate Bond, and Merrill Lynch 6-month U.S. Treasury Bill Indices.

4. LOANS RECEIVABLE

PENNVEST has loans outstanding throughout the Commonwealth. The eleven largest loans amount to 13% and 12%, of gross loans receivable at June 30, 2019 and 2018, respectively. 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 revenue streams generated by the municipal governments.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

4. LOANS RECEIVABLE, Continued

PENNVEST currently provides loans for projects which are expected to lead to an effective solution to problems experienced with 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 4.05% at June 30, 2019 and 2018.

At June 30, 2019 and 2018, PENNVEST had approved approximately \$410,905 and \$381,827, 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, gross, at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Displayed as:		
Current portion	\$ 169,404	\$ 163,965
Noncurrent portion	<u>2,490,666</u>	<u>2,415,883</u>
Total loans receivable, gross	<u><u>\$ 2,660,070</u></u>	<u><u>\$ 2,579,848</u></u>

5. ALLOWANCE FOR LOAN LOSSES

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

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 44,980	\$ 40,110
(Recovery)/Provision of loan losses	<u>(16,100)</u>	<u>4,870</u>
Balance, end of year	<u><u>\$ 28,880</u></u>	<u><u>\$ 44,980</u></u>

6. SHORT-TERM OBLIGATIONS

Pursuant to a resolution adopted by the PENNVEST board on April 22, 2014, and the State Revolving Fund (SRF) General Trust Indenture dated as of January 1, 2018, as amended and supplemented (including by a Second Supplemental SRF Trust Indenture dated as of February 1, 2019), between PENNVEST and their trustee, the aggregate principle amount of the outstanding short obligations may not exceed \$75,000 at any time. These obligations are issued in the form of commercial paper, and bear interest, which is due upon maturity.

During fiscal years 2019 and 2018, PENNVEST issued short-term obligations in the amount of \$30,123 and \$40,366, respectively, to finance the issuance of loans to program participants. Interest rates on these instruments ranged from 1.40% to 1.90% and 0.85% to 1.75% during 2019 and 2018, respectively, with no maturity being greater than 120 days.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

6. SHORT-TERM OBLIGATIONS, Continued

Changes in short-term obligations for the fiscal years ended June 30, 2019 and 2018 were:

Beginning Balance at July 1, 2018	Additions	Reductions	Ending Balance at June 30, 2019
\$ 50,371	\$ 30,123	\$ 50,371	\$ 30,123

Beginning Balance at July 1, 2017	Additions	Reductions	Ending Balance at June 30, 2018
\$ 10,005	\$ 40,366	\$ -	\$ 50,371

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.

In January 2018, PENNVEST issued State Revolving Funds ("SRF") Bond Series 2018A in the amount of \$50,000. The Bonds were issued at a premium of \$8,387. The proceeds of the 2018 RF bonds, together with other available funds, will be applied (i) to finance costs of certain wastewater and drinking water projects for governmental entities and other eligible borrowers pursuant to the PENNVEST Leveraged State Water Pollution Control Revolving Fund Program (Clean Water SRF Program) and the PENNVEST Leveraged State Drinking Water Revolving Fund Program (Drinking Water SRF Program), and (ii) to pay the costs of issuing the 2018 SRF Bonds.

Changes in revenue bonds payable for the fiscal years ended June 30, 2019 and 2018 are as follows:

Series	Beginning Balance at July 1, 2018	Additions	Reductions	Ending Balance at June 30, 2019	Amounts Due within One Year
2015A Revenue Bonds	\$ 58,839	\$ -	\$ 2,350	\$ 56,489	\$ 2,470
2018A SRF Bonds	50,000	-	3,910	46,090	4,180
Bond Premium	15,399	-	1,254	14,145	-
Total	\$ 124,238	\$ -	\$ 7,514	\$ 116,724	\$ 6,650

Series	Beginning Balance at July 1, 2017	Additions	Reductions	Ending Balance at June 30, 2018	Amounts Due within One Year
2015A Revenue Bonds	\$ 61,079	\$ -	\$ 2,240	\$ 58,839	\$ 2,350
2018A SRF Bonds	-	50,000	-	50,000	3,910
Bond Premium	7,427	8,387	415	15,399	-
Total	\$ 68,506	\$ 58,387	\$ 2,655	\$ 124,238	\$ 6,260

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

7. REVENUE BONDS PAYABLE, Continued

Information regarding revenue bonds issued is presented below:

Year of Issue	Amount of Original Issue	Maturity	Interest Rate	Purpose
2015	\$ 65,000	2018 through 2035	3.38% to 5.00%	To pay at maturity on July 1, 2015 the Series 2010A Commercial Paper Revenue Notes, and to pay debt issuance costs.
2018	\$ 50,000	2019 through 2028	5.00%	To finance costs of certain wastewater and drinking water projects.

A summary of debt service requirements (payable semi-annually) at June 30, 2019, are as follows:

Ending	Principal	Interest	Total
2020	\$ 6,650	\$ 4,888	\$ 11,538
2021	6,980	4,556	11,536
2022	7,330	4,207	11,537
2023	7,695	3,840	11,535
2024	8,080	3,456	11,536
2025-2029	40,185	10,806	50,991
2030-2034	20,955	3,577	24,532
2035	4,704	188	4,892
	<u>\$ 102,579</u>	<u>\$ 35,518</u>	<u>\$ 138,097</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 debt (short-term obligations and revenue bonds payable). The SRF trust indentures contain a provision that in an event of default of debt, outstanding amounts become immediately due if PENNVEST is unable to make payments.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

8. DUE TO THE COMMONWEALTH OF PENNSYLVANIA

In April 2013, a Commonwealth 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 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 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 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 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.

A summary of the required payments at June 30, 2019 are as follows:

<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 12,371	\$ 1,482	\$ 13,853
2021	12,495	1,358	13,853
2022	12,620	1,233	13,853
2023	12,747	1,106	13,853
2024	12,875	978	13,853
2025-2029	56,372	3,012	59,384
2030-2034	33,371	734	34,105
	<u>\$ 152,851</u>	<u>\$ 9,903</u>	<u>\$ 162,754</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

9. CAPITAL CONTRIBUTIONS

The Commonwealth of Pennsylvania has authorized the issuance of a total of \$1,430,256 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 \$1,595,657 and \$630,847 in Federal loan funds for water pollution control and drinking water, respectively, at June 30, 2019. Of the \$1,595,657 and \$630,655 approved, \$1,595,657 and \$623,259, respectively, have been received as of June 30, 2019. For the period July 1, 2018 through June 30, 2019, \$63,579 and \$32,865 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, 2018 through June 30, 2019, was \$12,716 and \$6,840, 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.

The required cumulative State match for the disbursed Federal loan funds for water pollution control and drinking water at June 30, 2019, was \$318,882 and \$125,961, respectively. As of June 30, 2019, \$321,375 and \$129,878 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, 2018, was \$306,166 and \$119,121, respectively. As of June 30, 2018, \$308,659 and \$123,037 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.

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, 2019 and 2018, PENNVEST has authorized unfulfilled grant commitments of \$44,664 and \$37,827, respectively, remaining.

For the years ended June 30, 2019 and 2018, capital contributions were \$86,884 and \$84,508, respectively. State and federal funded grants and principal forgiveness to program participants of \$54,874 and \$51,938 are reported as operating expenses, for the years ended June 30, 2019 and 2018, respectively.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

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>2019</u>	<u>2018</u>
Office of Comptroller Operations	\$ 194	\$ 181
Department of Environmental Protection	1,328	1,099

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

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. In fiscal year 2017 and 2018, the Commonwealth paid the full actuarially required rate after being collared in previous years due to Act 2010-20.

Contributions to the pension plan from PENNVEST were \$747 and \$701 for the fiscal years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019 and 2018, PENNVEST reported a liability of \$7,573 and \$6,105 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and 2017, 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, 2018 and 2017, PENNVEST's proportion was 0.036 and 0.035 percent, respectively.

For the fiscal year ended June 30, 2019 and 2018, PENNVEST recognized pension income of \$61 and \$25, respectively.

At June 30, 2019 and 2018, PENNVEST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Differences between expected and actual experience	\$ 114	\$ 103	\$ 82	\$ 116
Net difference between projected and actual investment earnings on pension plan investments	737	-	-	243
Changes in proportion	216	157	53	70
Changes in assumptions	202	305	-	-
Differences between PENNVEST contributions and proportionate share of contribution	13	15	7	11
PENNVEST contributions subsequent to measurement date	377	368	-	-
Total	<u>\$ 1,659</u>	<u>\$ 948</u>	<u>\$ 142</u>	<u>\$ 440</u>

The \$377 and \$368 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, 2019 and 2018, 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:	
2020	\$ 467
2021	210
2022	146
2023	303
2024	14
	<u>\$ 1,140</u>

Actuarial Assumptions

The following methods and assumptions were used in the December 31, 2018 and 2017 actuarial valuations. These methods and assumptions did not change from prior year and were applied to all periods included in the measurement:

2018 and 2017	
Investment rate of return	7.25% net of manager fees 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 per actual plan experience and future improvement.
Cost of living adjustments (COLAs)	Ad hoc and are not considered to be substantively automatic.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

Actuarial Assumptions, Continued

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, 2018 and 2017 are summarized in the following table:

Asset Class	December 31,			
	2018	Long-term Expected Rate of Return	2017	Long-term Expected Rate of Return
	Target Allocation		Target Allocation	
Private Equity	16%	7.25%	16%	8.00%
Global Public Equity	48	5.15	43	5.30
Real Estate	12	5.26	12	5.44
Multi-Strategy	10	4.44	12	5.10
Fixed Income	11	1.26	14	1.63
Cash	3	-	3	(0.25)
Total	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for both 2018 and 2017 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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEARS ENDED JUNE 30, 2019 and 2018
 (In Thousands Except for Percentages)

12. RETIREMENT BENEFITS, Continued

Sensitivity of PENNVEST’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following schedule presents PENNVEST’s proportionate share of the 2018 and 2017 net pension liability calculated using the discount rate of 7.25% for 2018 and 2017. 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 12-31-18 measurement date	\$ 9,300	\$ 7,573	\$ 6,094
	1% Decrease 6.25%	Current Discount rate 7.25%	1% Increase 8.25%
PENNVEST’S share of the net Pension liability as of the 12-31-17 measurement date	\$ 7,749	\$ 6,105	\$ 4,697

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. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”)

PENNVEST, through the Commonwealth’s Retired Employees Health Plan (“REHP”), provides healthcare as a post-employment benefit to its employees that qualify for this benefit when they retire. The REHP has been established under pertinent statutory authority.

General Information about the REHP

Plan Description and Administration

The REHP is a single employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement for some Commonwealth agencies and component units. The REHP is administered by the Pennsylvania Employee Benefits Trust Fund (“PEBTF”), which acts as a third-party administrator under an administrative agreement with the Commonwealth. All policy decisions types and levels of benefits for the REHP fall under the purview of the Commonwealth’s Executive Board, and the Secretary of Administration. The REHP does not have a governing board.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEARS ENDED JUNE 30, 2019 and 2018
 (In Thousands Except for Percentages)

13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”), Continued

Plan Description and Administration, Continued

The REHP is reported in the Commonwealth’s CAFR as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at www.budget.pa.us.

Contributions

REHP employer contribution requirements are established by the Commonwealth Office of Administration and the Office of the Budget. PENNVEST contributed \$300 (not in thousands) during July 1, 2017 to December 31, 2017 and \$188 (not in thousands) during January 1, 2018 to June 30, 2018 per biweekly pay period for each REHP eligible active employee to REHP per the actuarial valuation report as of June 30, 2018 (the measurement date). PENNVEST contributed \$362 (not in thousands) per biweekly pay period for each REHP eligible active employee to REHP per the actuarial valuation report as of June 30, 2017. Total contributions to the REHP were \$230 and \$259 for the year ended June 30, 2018 and 2017, respectively. These contributions are included in the determination of OPEB liability as of June 30, 2019, and 2018.

Benefits and Eligibility

The REHP covers retirees and their eligible dependents with medical and prescription drug plans. PENNVEST pays the insurance premiums for retirees with the exception of the following amounts received from the retiree:

Retirement Date:	Retiree share of cost of benefits:
Before July 1, 2005	Zero - PENNVEST pays full cost
July 1, 2005 to June 30, 2007	1% of final annual salary
July 1, 2005 to June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees of either final gross annual base salary or final average salary, whichever is less
After June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees final average salary

Employees who retire from PENNVEST at any age with 25 or more years of service are eligible to receive REHP benefits. In addition, employees who retire at or over age 60 with a minimum of 20 years of service are eligible for coverage under the REHP. Coverage under disability retirement requires five years of service. Spouses and dependents are eligible for subsidized postemployment medical coverage while the retiree is alive. Surviving spouses of deceased retirees may continue to participate in the plan if they pay the full cost of the coverage.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”), Continued

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, PENNVEST reported a liability of \$5,644 and \$7,899, respectively, for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured by an actuarial valuation as of June 30, 2018 and 2017, with the exception that the census data information which was as of December 31, 2017 and 2016. PENNVEST’s proportion of the collective net OPEB liability was based on PENNVEST’s contractually required contributions to the REHP relative to the contractually required contributions of all employers participating in the REHP. At June 30, 2018 and 2017, the measurement date, PENNVEST’s proportionate share was 0.04 percent.

For the year ending June 30, 2019 and 2018, PENNVEST recognized OPEB expense of \$321 and \$100, respectively. At June 30, 2019 and 2018, PENNVEST reported deferred outflows and deferred inflows of resources related to OPEB from the following:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Differences between expected and actual earnings on plan investments.	\$ -	\$ -	\$ 9	\$ 7
Difference between expected and actual experience	-	-	1,729	-
Changes in proportion	-	-	164	-
Changes in assumptions	-	-	742	720
PENNVEST contributions subsequent to measurement date	209	230	-	-
Total	<u>\$ 209</u>	<u>\$ 230</u>	<u>\$ 2,644</u>	<u>\$ 727</u>

Deferred outflows of resources related to OPEB resulting from PENNVEST’s contributions subsequent to the measurement dates, June 30, 2018 and 2017, but prior to the reporting dates, June 30, 2019 and 2018, of \$209 and \$230, respectively, will be recognized as a reduction of the OPEB liability at reporting dates June 30, 2020 and 2019, respectively.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in the PENNVEST’s OPEB expense as follows:

Year ended June 30:	
2020	\$ (555)
2021	(555)
2022	(555)
2023	(511)
2024	(301)
Thereafter	(167)
	<u>\$ (2,644)</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEARS ENDED JUNE 30, 2019 and 2018
 (In Thousands Except for Percentages)

13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”), Continued

Actuarial Methods and Assumptions

The following methods and assumptions were used in the June 30, 2018 and 2017, actuarial valuation.

Actuarial cost method	Entry age, normal
Discount rate	2018: 3.87%; 2017: 3.58% - Index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date.
Investment rate of return	5.00%
Initial medical trend rate	2018: 6.2/5.9% and 2017: 6.00%
Ultimate medical trend rate	2018: 4.10% and 2017: 3.90%
Inflation	2.60%
Payroll growth	2.90%
Year ultimate trend rate reached	2075
Mortality rate	Projected RP-2000 Mortality Tables

The above actuarial assumptions were determined, in-part, based on the SERS experience studies performed periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the State Employees’ Retirement Board in March 2016. The approved recommendations from that study were used to determine the assumptions for the REHP valuation, where applicable.

One significant assumption where the recommendation of the experience study is not applicable to the retiree health benefit valuation is the discount rate. Since REHP has insufficient assets to meet next year’s projected benefit payments, as prescribed by GASB Nos. 74 and 75, the discount rate is based on the index rate for 20-year tax exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate was 3.87% and 3.58% as of June 30, 2018 and 2017, respectively.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major assets class included in the target asset allocation are summarized in the following table:

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”), Continued

Long-term Expected Return on Plan Assets, Continued

Asset Class	June 30,			
	2018		2017	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
U.S. Equity	47%	6.6%	47%	7.5%
International Equity	20	8.6	20	8.5
Fixed Income	25	3.0	25	3.0
Real Estate	8	6.9	8	3.0
Cash	-	1.0	-	1.0
Total	100%		100%	

Sensitivity of PENNVEST’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents PENNVEST’s 2019 and 2018 OPEB liability calculated using the discount rate of 3.87 and 3.58 percent, respectively, as well as what PENNVEST’s OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	2019		
	1% Decrease	Current Discount	1% Increase
	2.87%	Rate 3.87%	4.87%
Total OPEB liability	\$ 6,466	\$ 5,644	\$ 4,966

	2018		
	1% Decrease	Current Discount	1% Increase
	2.58%	Rate 3.58%	4.58%
Total OPEB liability	\$ 9,255	\$ 7,899	\$ 7,000

Sensitivity of PENNVEST’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Authority’s 2019 OPEB liability calculated using the assumed trend rates of 6.2% / 5.9% grading down to 4.1%, as well as what PENNVEST’s OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current rate:

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Concluded
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In Thousands Except for Percentages)

13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”), Continued

Sensitivity of PENNVEST’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate, Continued

	2019		
	1% Decrease 5.2% / 4.9% down to 3.1%	Current Trend Rate 6.2% / 5.9% down to 4.1%	1% Increase 7.2% / 6.9% down to 5.1%
Total OPEB liability	\$ 4,845	\$ 5,644	\$ 6,637

The following presents PENNVEST’s 2018 OPEB liability calculated using the assumed trend rates of 6.0% grading down to 3.9%, as well as what PENNVEST’s OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current rate:

	2018		
	1% Decrease 5.0% down to 2.9%	Current Trend Rate 6.0% down to 3.9%	1% Increase 7.0% down to 4.9%
Total OPEB liability	\$ 6,855	\$ 7,899	\$ 9,462

14. SUBSEQUENT EVENTS

PENNVEST has evaluated subsequent events through October 29, 2019 the date which the financial report was available to be issued.

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)

	2019	2018	2017	2016
PENNVEST's proportion of the collective net pension liability	0.03635722%	0.03530670%	0.03577823%	0.03585011%
PENNVEST's proportionate share of the collective net pension liability	\$ 7,573	\$ 6,105	\$ 6,891	\$ 6,519
PENNVEST's covered-employee payroll	\$ 2,262	\$ 2,101	\$ 2,125	\$ 2,191
PENNVEST'S proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	334.79%	290.58%	324.28%	297.54%
Plan's fiduciary net position as a percentage of the total pension liability	56.40%	61.56%	57.80%	58.90%

* 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 four years are presented in the above schedule.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 738	\$ 675	\$ 560	\$ 537
Contributions in relation to the contractually required contribution	<u>(738)</u>	<u>(675)</u>	<u>(560)</u>	<u>(537)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PENNVEST's covered-employee payroll	2,262	2,101	2,125	2,191
Contributions as a percentage of covered-employee payroll	32.63%	32.13%	26.35%	24.51%

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

NOTES TO SCHEDULE:

Contributions rates are calculated as of December 31,
for the fiscal year in which contributions are reported.

	2017	2016	2015	2014
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial valuation date: December 31,	2018	2017	2016	2015
Actuarial cost method	Entry Age for all years shown			
Amortization method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits for all years shown			
Investment rate of return, net of manger fees including inflation	7.25%	7.25%	7.25%	7.50%
Projected salary increases	5.60%	5.60%	5.60%	5.70%
Asset valuation method	Fair (market) value for all years shown			
Inflation	2.60%	2.60%	2.60%	2.75%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement for all years shown			
Cost of living adjustments	None			

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
SCHEDULES OF PENNVEST'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
RETIRED EMPLOYEES HEALTH PLAN
LAST 10 FISCAL YEARS*
(In Thousands Except for Percentages)

	<u>2019</u>	<u>2018</u>
PENNVEST's proportion of the collective net OPEB liability	0.039208%	0.040139%
PENNVEST's proportionate share of the collective net OPEB liability	\$ 5,644	\$ 7,899
PENNVEST's covered-employee payroll	\$ 1,603	\$ 1,874
PENNVEST'S proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	352.09%	421.50%
REHP fiduciary net position as a percentage of the total OPEB liability	2.20%	1.40%

* PENNVEST adopted GASB 75 on a prospective basis; therefore, only two years are presented in the above schedule.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
SCHEDULES OF PENNVEST'S CONTRIBUTION - OPEB
RETIREED EMPLOYEES HEALTH PLAN
PRIOR 10 FISCAL YEARS*
(In Thousands Except for Percentages)

	2019	2018
Contractually required contribution	\$ 191	\$ 293
Contributions in relation to the contractually required contribution	(230)	(259)
Contribution (excess)/deficiency	\$ (39)	\$ 34
PENNVEST's covered-employee payroll	\$ 1,603	\$ 1,874
Contributions as a percentage of covered-employee payroll	11.92%	15.64%

* PENNVEST adopted GASB 75 on a prospective basis; therefore, only two years is presented in the above schedule.

NOTES TO SCHEDULE:

Contributions - The bi-weekly contribution rate payable by the Authority is based on the projected per retiree cost and the number of estimated retirees.

The per retiree bi-weekly rate was: \$300/\$188 \$362

Methods and Assumptions Used to Determine OPEB Liability:

	2018	2017
Actuarial valuation date: June 30,		
Actuarial cost method	Entry Age for all years shown	
Discount rate	3.87%	3.58%
Initial medical trend rate	6.2%/5.9%	6.00%
Ultimate medical trend rate	4.10%	3.90%
Year ultimate trend rate reached	2075	2075
Mortality rate	Project RP-2000 Mortality Tables for all years shown	

***GASB Statement No. 75 requires this information to be reported for 10 years. Additional years will be displayed as the information is available.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
 SCHEDULES OF NET POSITION
 JUNE 30, 2019 AND 2018
 (In Thousands)

	2019	2018
Assets:		
Cash and cash equivalents	\$ 103,183	\$ 50,269
Restricted investment - securities lending collateral	4,862	5,259
Investments	861,279	862,042
Loans receivable, gross	1,494,635	1,390,822
Allowance for loan losses	(17,103)	(16,383)
Accrued interest receivable	2,411	2,242
Other receivable	-	1,848
Due from the Commonwealth of Pennsylvania	173	122
Total Assets	2,449,440	2,296,221
Liabilities:		
Accounts payable	1,040	1,859
Due to the Commonwealth of Pennsylvania	519	330
Due to the federal government	288	-
Securities lending obligations	4,862	5,259
Short-term obligations	30,123	-
Revenue bonds payable	34,329	37,368
Total Liabilities	71,161	44,816
Net Position:		
Restricted for federal clean water state revolving loan fund	\$ 2,378,279	\$ 2,251,405

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, 2019 AND 2018
(In Thousands)

	2019	2018
Operating Revenues:		
Interest on loans receivable	\$ 18,145	\$ 17,376
Other	11	4
	<u>18,156</u>	<u>17,380</u>
Operating Revenues Before Provision for Loan Loss	18,156	17,380
Provision for loan losses	<u>(722)</u>	<u>(5,131)</u>
Net Operating Revenues	<u>17,434</u>	<u>12,249</u>
Operating Expenses:		
Administration	3,997	2,657
Other state and federal "principal forgiveness" to program participants	<u>17,991</u>	<u>15,611</u>
Total Operating Expenses	<u>21,988</u>	<u>18,268</u>
Operating Loss	<u>(4,554)</u>	<u>(6,019)</u>
Nonoperating Revenues (Expense):		
Investment income	57,915	30,014
Interest and amortization expense	(1,934)	-
Bond issuance costs	-	(164)
Total Nonoperating Revenues	<u>55,981</u>	<u>29,850</u>
Income before Capital Contributions	<u>51,427</u>	<u>23,831</u>
Capital contributions:		
Other federal and state	<u>75,447</u>	<u>62,592</u>
Total Capital Contributions	<u>75,447</u>	<u>62,592</u>
Increase In Net Position	126,874	86,423
Net Position - Beginning of Year	<u>2,251,405</u>	<u>2,164,982</u>
Net Position - End of Year	<u>\$ 2,378,279</u>	<u>\$ 2,251,405</u>

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	2018
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 109,164	\$ 125,356
Loan disbursements to borrowers	(195,321)	(154,194)
Cash paid to vendors	(2,920)	(5,044)
Other State and Federal "principal forgiveness" to program participants	(17,991)	(15,252)
Other receipts	11	4
Federal grant receipts	288	499
Net Cash Used In Operating Activities	<u>(106,769)</u>	<u>(48,631)</u>
Cash Flows From Capital Financing Activities:		
Proceeds from short-term borrowings/bond issuance	30,123	37,368
Repayment on bonds payable	(3,039)	-
Bond issuance costs	-	(164)
Other federal and state grants received	75,447	62,592
Cash Provided By Capital Financing Activities	<u>102,531</u>	<u>99,796</u>
Cash Flows from Investing Activities:		
Receipts from depositories	57,915	30,014
Net purchases of State Treasury Common Investment Pool	(763)	(31,456)
Cash Provided By/(Used In) Investing Activities	<u>57,152</u>	<u>(1,442)</u>
Increase In Cash And Cash Equivalents	<u>52,914</u>	<u>49,723</u>
Cash and Cash Equivalents, Beginning of Year	<u>50,269</u>	<u>546</u>
Cash and Cash Equivalents, End of Year	<u>\$ 103,183</u>	<u>\$ 50,269</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating loss	\$ (4,554)	\$ (6,019)
Changes in operating assets and liabilities:		
Loan receivable, gross	(104,223)	(45,881)
Recovery of loan losses	722	5,131
Accrued interest	(169)	(333)
Due from/to the Commonwealth of Pennsylvania	138	31
Due to/from the federal government	288	499
Other receivable	1,848	(1,847)
Accounts payable and accrued liabilities	(819)	(212)
Total adjustments	<u>(102,215)</u>	<u>(42,612)</u>
Net Cash Used In Operating Activities	<u>\$ (106,769)</u>	<u>\$ (48,631)</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, 2019 AND 2018
(In Thousands)

	2019	2018
Assets:		
Cash and cash equivalents	\$ 51,247	\$ 35,014
Restricted investment - securities lending collateral	1,324	1,432
Investments	243,543	219,841
Loans receivable, gross	490,576	488,922
Allowance for loan losses	(1,707)	(3,518)
Accrued interest receivable	891	820
Other receivable	-	574
Due from Commonwealth of Pennsylvania	16	-
	785,890	743,085
Total Assets		
Liabilities:		
Accounts payable	408	579
Due to others	42	-
Due to Commonwealth of Pennsylvania	865	773
Due to federal government	1,646	1,725
Securities lending obligations	1,324	1,432
Revenue bonds payable	19,310	21,020
Total Liabilities	23,595	25,529
Net Position:		
Restricted for federal drinking water state revolving loan fund	\$ 762,295	\$ 717,556

See the accompanying notes to these loan fund financial statements.

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, 2019 AND 2018
 (In Thousands)

	2019	2018
Operating Revenues:		
Interest on loans receivable	\$ 8,435	\$ 8,578
Federal grants	9,374	8,149
Operating Revenues Before Provision for Loan Loss	17,809	16,727
Recovery/(Provision) for loan losses	1,811	(998)
Net Operating Revenues	19,620	15,729
Operating Expenses:		
Administration	8,435	8,161
Other state and federal "principal forgiveness" to program participants	9,707	7,806
Total Operating Expenses	18,142	15,967
Operating Income/(Loss)	1,478	(238)
Nonoperating Revenues (Expenses):		
Investment income	15,042	8,283
Interest and amortization expense	(971)	-
Bond issuance costs	-	(92)
Total Nonoperating Revenues	14,071	8,191
Income before Capital Contributions	15,549	7,953
Capital Contributions:		
Other federal and state	29,190	20,486
Total Capital Contributions	29,190	20,486
Increase In Net Position	44,739	28,439
Net Position - Beginning of Year	717,556	689,117
Net Position - End of Year	\$ 762,295	\$ 717,556

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND
SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	2018
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 44,113	\$ 41,927
Loan disbursements to borrowers	(37,403)	(37,897)
Cash paid to vendors	(7,898)	(8,466)
Other state and federal "principal forgiveness" to program participants	(9,707)	(7,443)
Federal grant receipts	9,279	10,593
Net Cash Used In Operating Activities	(1,616)	(1,286)
Cash Flows From Capital Financing Activities:		
Proceeds from bond issuance	-	21,020
Repayment on bonds payable	(1,710)	-
Bond issuance costs	-	(92)
Payment of interest on bonds payable	(971)	-
Other federal and state grants received	29,190	20,486
Cash Provided By Capital Financing Activities	26,509	41,414
Cash Flows From Investing Activities:		
Receipts from depositories	15,042	8,283
Net purchases of State Treasury Common Investment Pool	(23,702)	(13,400)
Cash Used In Investing Activities	(8,660)	(5,117)
Increase In Cash And Cash Equivalents	16,233	35,011
Cash and Cash Equivalents, Beginning of Year	35,014	3
Cash and Cash Equivalents, End of Year	\$ 51,247	\$ 35,014
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating income/loss	\$ 1,478	\$ (238)
Adjustments to reconcile operating income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Loan receivable, gross	(1,654)	(4,461)
Provision/(Recovery of) for loan losses	(1,811)	998
Interest receivable on loans	(71)	(87)
Other receivable	574	(574)
Due from the federal government	(95)	2,443
Accounts payable and accrued liabilities	(37)	633
Total adjustments	(3,094)	(1,048)
Net Cash Used In Operating Activities	\$ (1,616)	\$ (1,286)

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FUND SCHEDULES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(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 loan 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 \$17,103 and \$1,707 for the Federal Clean Water State Revolving Loan Fund, and the Federal Drinking Water State Loan Fund, respectively, at June 30, 2019 and \$16,383 and \$3,518, respectively, at June 30, 2018.

5. COMMITMENTS & CONTINGENT LIABILITIES

At June 30, 2019, PENNVEST had approved approximately \$283,331 and \$127,574, 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, 2019

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, 2019</u>
1239839	\$ 99	\$ 17,393	\$ 6,997
3358678	113	22,850	22,371
	<u>\$ 212</u>	<u>\$ 40,243</u>	<u>\$ 29,368</u>

June 30, 2018

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, 2018</u>
1239839	\$ 99	\$ 17,393	\$ 7,961
3281243	123	12,435	12,305
3224698	371	25,000	24,294
	<u>\$ 593</u>	<u>\$ 54,828</u>	<u>\$ 44,560</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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise PENNVEST's basic financial statements, and have issued our report thereon dated October 29, 2019.

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 29, 2019
Philadelphia, PA

